

This document is important. If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant, or other professional adviser.

We have made an application to the Singapore Exchange Securities Trading Limited ("SGX-ST") for permission to deal in, and for quotation of, all the ordinary shares of S\$0.05 each (the "Shares") in the capital of ISDN Holdings Limited (the "Company") already issued (including the Vendor Shares), the new shares which are the subject of this Invitation (the "New Shares") and the new shares which may be issued upon the exercise of the options to be granted under the ISDN Holdings Share Option Scheme (the "Option Shares"). Such permission will be granted when we have been admitted to the Official List of the SGX-ST. The dealing and quotation of the Shares will be in Singapore dollars.

Our acceptance of applications will be conditional upon, inter alia, permission being granted by the SGX-ST to deal in, and for quotation of, all the existing issued Shares (including the Vendor Shares), the New Shares and the Option Shares. If the completion of the Invitation does not occur because the SGX-ST's permission is not granted or for any other reasons, monies paid in respect of any application accepted will be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom and you will not have any claims whatsoever against us, the Vendors, the Manager or the Placement Agent and Underwriter.

The SGX-ST assumes no responsibility for the correctness of any of the statements, opinions made or reports contained in this Prospectus. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Invitation, our Company, our subsidiaries, our Shares (including the Vendor Shares), the New Shares or the Option Shares.

A copy of this Prospectus together with a copy of the Application Forms, have been lodged with and registered by the Monetary Authority of Singapore (the "Authority"). The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act (Cap. 289) of Singapore, or any other legal or regulatory requirements have been complied with. The Authority has not, in any way, considered the merits of the shares or units of shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

Investing in our Shares involves risks which are described in the section entitled "Risk Factors" of this Prospectus. No shares will be allotted and/or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus. We experienced a decrease in demand for our motion control and industrial computing systems from the cyclical semiconductor industry for the first six months of FY2005 which we believe, is due to a slowdown in global demand for semiconductors. Due to this decrease in demand, we expect our Group's net profit to be lower year-on-year for the first half of FY2005 as compared with that of the previous corresponding half-year. Please refer to the section entitled "Trends" of this Prospectus for further details.



**ISDN HOLDINGS LIMITED**

Incorporate in Singapore on 28 December 2004

Company Registration Number: 200416788Z

Invitation in respect of 39,700,000 ordinary shares of S\$0.05 each, comprising 27,000,000 New Shares and 12,700,000 Vendor Shares as follows: -

- (a) 1,500,000 Offer Shares at S\$0.29 each by way of public offer; and
- (b) 38,200,000 Placement Shares by way of placement, comprising: -
  - (i) 34,130,000 Placement Shares at S\$0.29 for each Placement Share;
  - (ii) 3,970,000 Reserved Shares at S\$0.29 for each Reserved Share reserved for employees, customers, suppliers and persons who have contributed to the success of the Group; and
  - (iii) 100,000 Internet Placement Shares at S\$0.29 for each Internet Placement Share reserved for applications made through the IPO website [www.ePublicOffer.com](http://www.ePublicOffer.com), payable in full on application.

Manager

**WESTCOMB**  
FINANCIAL GROUP  
WESTCOMB CAPITAL PTE LTD

Placement Agent and Underwriter  
WESTCOMB SECURITIES PTE LTD



ISDN Holdings

## OUR BUSINESS

We are a mechatronics engineering Group providing integrated solutions to our motion control and industrial computing customers, including design, customisation, assembly, installation and after sales support.

Our business is divided into two segments, namely:-

- (a) Motion Control Division; and
- (b) Industrial Computing Division.

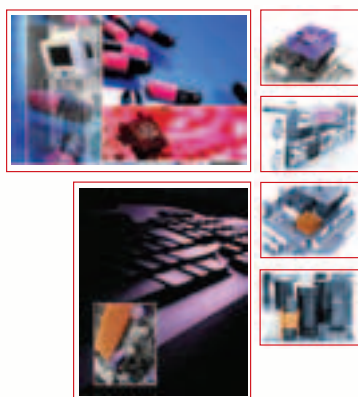


### (a) MOTION CONTROL DIVISION

Motion control is the accurate control of the movement of an object (by a combination of mechanical movements) based on either speed, distance, load, inertia or combination of all these factors. Thus a motion control system is a precise electro-mechanical assembly that can be a functional module of a machine or a complete machine by itself.

Our Motion Control Division is an integrated solutions provider that specialises in the design, assembly, sale and installation of motion control systems commissioned by our mainly MNC and SME customers for their equipment. We design and assemble major functional modules for X-ray machines, industrial robots, SMT machines and disk drive testing machines.

Our Motion Control Division designs, assembles and installs motion control systems for more than 2,000 customers in the general automation, manufacturing, hard disk and semiconductor industries.



### (b) INDUSTRIAL COMPUTING DIVISION

Our Industrial Computing Division provides integrated solutions to cater to the industrial computing needs of our customers. Under this division, we customise and sell a wide range of industrial hardware and software to our customers. Most of our customers in this business division are manufacturers of factory automation systems for various industries such as semiconductor, general automation, manufacturing and hard disk.

We provide hardware and software solutions to meet our customers' industrial computing needs. Our products and services include customising and assembling industrial computer systems and installation of software on the system for our customers. These industrial computer systems may be used for the manufacturing and production process in the oil and gas, medical, water treatment, telecommunication and semiconductor industries.

## INDUSTRY PROSPECTS

### Growth in the PRC market

We have been active in the PRC market since 1995. Since then, we have established subsidiaries, joint venture and associated companies in the PRC in cities such as Suzhou, Chongqing, Shenzhen, Shanghai and Beijing and we also conduct business activities in major cities in the PRC, such as Mianyang, Shenyang, Xi'an, Harbin, Fuzhou, Chengdu, Guangzhou and Wuhan. As the PRC continues to grow as a manufacturing hub for the world economy, its demand for motion control and industrial computing systems are expected to increase.

### Growth in the Thai market

Since 2000, we have been active in the Thai market through our subsidiary SD Thailand, which we have established to design, assemble and sell our motion control systems to the Thai local market. Our Directors believe that Thailand is an increasingly important manufacturing hub for automobiles, hard disk drives and semiconductors and also has an active market for textiles and food packaging. Demand for our motion control systems is likely to increase as manufacturers seek to reduce production costs through higher efficiency of their production equipment.





# FINANCIAL HIGHLIGHTS

Financial Year ended 31 December

Revenue	(S\$'Mil)
FY2002	21.30
FY2003	39.00
FY2004	53.46

Net Profit	(S\$'Mil)
FY2002	1.52
FY2003	3.06
FY2004	5.78

Proforma Consolidated Revenue



Proforma Consolidated Net Profit



## FUTURE PLANS

### Acquisitions, joint ventures and strategic alliances

We entered into an agreement with a German company to establish a company in the PRC for the manufacture of motion control components.

In addition, we have entered into an agreement with a Taiwanese company that is engaged in the research and development of motion control components to invest an initial sum of approximately S\$150,000 to acquire a 19% stake in it by 31 December 2005.

We have entered into an agreement with Goh Yiu Jin to acquire a 67% stake in Singapore company known as JM Vistec System Pte Ltd which is engaged in the supply of vision related products for S\$300,000.

### To expand and develop our existing operations

We have plans to expand and develop our operations in countries where we have a presence such as the PRC, Thailand and the Philippines.

### To expand our geographical coverage of our markets

Currently, our principal markets are Singapore and the Greater China. We have plans to expand our geographical coverage through the expansion of our businesses into new markets in Asia, including Indonesia, India and Vietnam.

### To establish an integrated computerised system for our operations

We intend to establish an integrated computerised system, namely Enterprise Resource Planning (“ERP”) for all our operations. The ERP system will provide a platform for us to have better management of inventory and better internal control. We plan to complete the establishment of ERP for all our operations by 2006.

## COMPETITIVE STRENGTHS

### We possess strong design and development capabilities

Our dedicated team of 46 technical engineers, representing approximately 20% of staff strength of our entire Group, enable us to design, assemble and provide after sales service support for sophisticated motion control systems which we design for our customers

### Joint Venture and alliance with our strategic partner Interelectric Ag

We have a long-term business relationship with our strategic partner, Interelectric Ag. Interelectric Ag, is the holding company of Maxon Motor Ag, our major supplier and one of leading global supplier of high-tech drive components and systems. We have entered into a joint venture with them to establish Maxon Suzhou, a company incorporated in the PRC engaged in the assembly of motion control systems containing "Maxon Motor" motion control components for sales in the PRC market.

### Strong business network in the Greater China and regional presence in growth markets

We have subsidiaries and joint venture companies in Hong Kong and various cities in the PRC such as Suzhou, Chongqing, Shenzhen and Beijing. In addition, our business network covers other major cities in the PRC, such as Mianyang, Shenyang, Xi'an, Harbin, Fuzhou, Chengdu, Guangzhou and Wuhan. As part of our expansion plans, we will continue to develop a wide distribution network in the Greater China. Our sales to our Greater China customers form approximately 23.9%, 28.6% and 35.2% of our total revenue for FY2002, FY2003 and FY2004 respectively.

### Diverse supplier base and wide range of products

We obtain our products through our network of more than 500 suppliers. As such, we are not overly dependent on any single supplier for our products.

### Diverse customer base

As at the Latest Practicable Date, we have a large customer base of more than 2,000 customers. These customers, some of which are SMEs, MNCs and government bodies, are from various industries.

Our large customer base, which spread across various industries, reduces our exposure to a downturn in any particular industry..

### Established track record

As at the Latest Practical Date, we have established and maintained good relationships with our customers located in Singapore, the PRC, Hong Kong, Thailand, Malaysia and the Philippines. Approximately 80% of our existing customers are repeat customers.

Our customer base has been expanding by an average of between 10% and 20% yearly since 1987.

### Experienced management team

Our Managing Director and President, Teo Cher Koon has more than 20 years of experience in the motion control and industrial computing industries

Our Executive Director and Senior Vice President – PRC operations, Kong Deyang is in charge of our PRC operations and has extensive hands on experience. He has contributed to the growth of the PRC operations and business of the Group since 1995.

Most of our Executive Officers has, on average more than 8 years experience in the motion control and industrial computing industries.

We provide applications and solutions to a wide spectrum of industries including but not limited to the following examples:

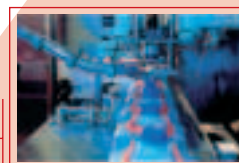
automotive



consumer



industrial automation



medical



robotics



dispensers



electronics



security



instrumentation



For any matters relating to ISDN HOLDINGS LIMITED, kindly contact us at the following:

Address:  
ISDN HOLDINGS LIMITED  
No. 10 Kakit Bukit Road 1  
#01-30 KB Industrial Building  
Singapore 416175  
Tel: (65) 6844 0288  
Fax: (65) 6844 0070  
Email: [enquiry@isdnholdings.com](mailto:enquiry@isdnholdings.com)  
Website: [www.isdnholdings.com](http://www.isdnholdings.com)



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## CORPORATE INFORMATION

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<b>BOARD OF DIRECTORS</b>	:	Lim Siang Kai (Chairman and Independent Director) Teo Cher Koon (Managing Director) Kong Deyang (Executive Director) Tay Gim Sin Leonard (Non-executive Director) Soh Beng Keng (Independent Director)
<b>COMPANY SECRETARY</b>	:	Lim Tiong Beng, CPA
<b>REGISTERED OFFICE</b>	:	10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175
<b>REGISTRATION NUMBER</b>	:	200416788Z
<b>SHARE REGISTRAR AND SHARE TRANSFER OFFICE</b>	:	Lim Associates (Pte) Ltd 10 Collyer Quay #19-08 Ocean Building Singapore 049315
<b>MANAGER</b>	:	Westcomb Capital Pte Ltd 5 Shenton Way #09-07 UIC Building Singapore 068808
<b>PLACEMENT AGENT AND UNDERWRITER</b>	:	Westcomb Securities Pte Ltd 5 Shenton Way #09-08 UIC Building Singapore 068808
<b>REPORTING AUDITORS</b>	:	Deloitte & Touche Certified Public Accountants 6 Shenton Way #32-00 DBS Building Tower Two Singapore 068809  Partner-in-charge: Dr Ernest Kan Yaw Kiong
<b>SOLICITORS TO THE INVITATION</b>	:	Colin Ng & Partners 50 Raffles Place #29-00 Singapore Land Tower Singapore 048623
<b>LEGAL ADVISORS TO THE COMPANY ON PRC LAW</b>	:	Fangda Partners 22/F Kerry Center 1515 Najing West Road Shanghai 200040, PRC
<b>RECEIVING BANKER</b>	:	Bank of East Asia, Limited 137 Market Street Bank of East Asia Building Singapore 048943

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## CORPORATE INFORMATION

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<b>PRINCIPAL BANKERS</b>	:	DBS Bank Ltd Queensway Branch Blk. 123, Bukit Merah Link 1 #01-78, Alexandra Village Singapore 150123
		DBS Bank Ltd, Shanghai Branch 161 Lu Jia Zui East Road 28 <sup>th</sup> 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
<b>VENDORS</b>	:	Assetraise Holdings Limited Offshore Incorporations Limited, P.O. Box 957, Offshore Incorporation Centre, Road Town, Tortola, British Virgin Islands
		Tay Gim Sin Leonard 9 Sin Ming Walk #01-04 Singapore 575578

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## DEFINITIONS

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For the purpose of this Prospectus and the accompanying Application Forms and, in relation to Electronic Applications, the instructions appearing on the screens of ATMs or the IB websites of the Participating Banks, unless the context otherwise requires, the following definitions apply where the context so admits: -

### Group Companies

<i>"Beijing AMC"</i>	: 北京北成新控伺服技术有限公司 (Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd.)
<i>"Company" or "ISDN"</i>	: ISDN Holdings Limited
<i>"Delta Automation"</i>	: 上海帝生通国际贸易有限公司 (Shanghai Delta Automation International Trade Co., Ltd.)
<i>"Group" or "Pro forma Group"</i>	: Our Company and our subsidiaries treated for the purpose of this Prospectus as if the group structure had been in existence since 1 January 2002. The terms "We", "Our", "Our Company" or "us" have correlative meanings
<i>"JM Vistec"</i>	: JM Vistec System Pte Ltd
<i>"Leaptron"</i>	: Leaptron Engineering Pte Ltd
<i>"Maxon Suzhou"</i>	: 苏州钧和伺服科技有限公司 (Maxon Motor (Suzhou) Co., Ltd.)
<i>"Maxon Shanghai"</i>	: 麦柯胜电机国际贸易(上海)有限公司 (Maxon Electronic Machine International Trade (Shanghai) Co., Ltd.)
<i>"MCG"</i>	: Motion Control Group Pte Ltd
<i>"Nyquist"</i>	: Nyquist Asia Pte Ltd
<i>"PMC Philippines"</i>	: Precision Motion Control Phils Inc.
<i>"Portwell"</i>	: Portwell Singapore Pte Ltd
<i>"Precision Motion"</i>	: Precision Motion Control Pte Ltd
<i>"SD Beijing"</i>	: 北京钧义志成科技发展有限公司 (Beijing Junyizhicheng Technology Developing Co., Ltd.)
<i>"SD Chongqing"</i>	: 重庆钧智自动化仪器控制有限公司 (Chongqing Junzhi Automatic Instrument Control Co., Ltd.)
<i>"SD Hong Kong"</i>	: Servo Dynamics (H.K.) Limited
<i>"SD Malaysia"</i>	: Servo Engineering Sdn Bhd
<i>"SD Shenzhen"</i>	: 深圳市钧诚科技有限公司 (Shenzhen Servo Dynamics Co., Ltd.)
<i>"SD Suzhou"</i>	: 苏州钧信自动控制有限公司 (Servo Suzhou Co., Ltd.)
<i>"SD Thailand"</i>	: Servo Dynamics (Thailand) Co., Ltd

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## DEFINITIONS

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<i>"Servo Dynamics"</i>	: Servo Dynamics Pte Ltd
<i>"Servo-matic"</i>	: Servo-matic Technology (M) Sdn Bhd

### **Other Corporations or Agencies**

<i>"CDP"</i>	: The Central Depository (Pte) Limited
<i>"CPF"</i>	: The Central Provident Fund
<i>"Dirak Asia"</i>	: Dirak Asia Pte Ltd
<i>"Dirak Suzhou"</i>	: Dirak Suzhou Co., Ltd.
<i>"IRAS"</i>	: Inland Revenue Authority of Singapore
<i>"LTA"</i>	: The Singapore Land Transport Authority
<i>"Maxon Motor"</i>	: Maxon Motor Ag
<i>"Resem Technologies"</i>	: Resem Technologies Pte Ltd
<i>"SGX-ST"</i>	: Singapore Exchange Securities Trading Limited
<i>"SCCS"</i>	: Securities Clearing & Computer Services (Pte) Ltd

### **General**

<i>"Application Forms"</i>	: The printed application forms to be used for the purpose of the Invitation and which form part of this Prospectus
<i>"Application List"</i>	: The list of applications for subscription of the Invitation Shares
<i>"Associate(s)"</i>	: (a) in relation to any director, chief executive officer or substantial shareholder (being an individual) means: <ul style="list-style-type: none"><li>(i) his immediate family;</li><li>(ii) the trustees, acting in their capacity as such trustees, of any trust of which he or his immediate family is a beneficiary or, in the case of a discretionary trust, is a discretionary object; and</li><li>(iii) any company in which he and his immediate family together (directly or indirectly) have an interest of 30% or more.</li></ul> (b) in relation to a substantial shareholder (being a company) means any other company which is its subsidiary or holding company or is a fellow subsidiary of any such holding company or one in the equity of which it and/or such other company or companies taken together (directly or indirectly) have an interest of 30% or more.

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## DEFINITIONS

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<i>“Associated company”</i>	: In relation to a corporation, means:- <ul style="list-style-type: none"><li>(a) any corporation in which the corporation or its subsidiary has, or the corporation and its subsidiary together have, a direct interest of not less than 20% but not more than 50% of the aggregate of the nominal amount of all the voting shares; or</li><li>(b) any corporation, other than a subsidiary of the corporation or a corporation which is an associated company by virtue of paragraph (a), the policies of which the corporation or its subsidiary, or the corporation together with its subsidiary, is able to control or influence materially</li></ul>
<i>“ATM”</i>	: Automated teller machines of a Participating Bank
<i>“Audit Committee”</i>	: The audit committee of our Company
<i>“Companies Act”</i>	: The Companies Act (Cap. 50) of Singapore
<i>“Controlling Shareholder(s)”</i>	: A person who holds, directly or indirectly, 15% or more of the nominal amount of all voting shares in our Company (the SGX-ST may determine that a person who satisfies this definition is not a controlling shareholder) or a person who in fact exercises control over our Company
<i>“Directors”</i>	: The Directors of our Company as at the date of this Prospectus
<i>“Dividend Payment”</i>	: The proposed payment of a sum amounting to approximately S\$7.09 million declared on 15 September 2005 by Servo Dynamics as dividends to its then shareholders as at 31 December 2004.
<i>“Electronic Applications”</i>	: Applications for the Offer Shares made through an ATM or through IB Application of the IPO website in accordance with the terms and conditions of this Prospectus
<i>“EPS”</i>	: Earnings per Share
<i>“Executive Directors”</i>	: The executive Directors of our Company as at the date of this Prospectus
<i>“Executive Officers”</i>	: The executive officers of our Company as at the date of this Prospectus
<i>“FY”</i>	: Financial year ended or, as the case maybe, ending 31 December
<i>“Greater China”</i>	: China and Hong Kong
<i>“Hong Kong”</i>	: The Hong Kong Special Administrative Region of the PRC
<i>“IB”</i>	: Internet Banking
<i>“IB Application”</i>	: An application for the Offer Shares made through an IB website of one of the relevant Participating Banks, in accordance with the terms and subject to the conditions of this Prospectus
<i>Independent Directors”</i>	: The independent Directors of our Company as at the date of this Prospectus



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## DEFINITIONS

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<i>"Invitation"</i>	: The invitation by our Company and the Vendors to the public in Singapore to subscribe for and/or purchase the Invitation Shares in accordance with the terms and subject to the conditions of this Prospectus
<i>"Invitation Price"</i>	: S\$0.29 for each Invitation Share
<i>"Invitation Shares"</i>	: The 39,700,000 Invitation Shares which are the subject of the Invitation, comprising the New Shares and the Vendor Shares
<i>"IPO Website"</i>	: The Internet website of <a href="http://www.ePublicOffer.com">www.ePublicOffer.com</a> of the IPO Website Operator
<i>"IPO Website Operator"</i>	: Westcomb Securities Pte Ltd
<i>"Latest Practicable Date"</i>	: 15 September 2005, being the latest practicable date prior to the lodgement of the Prospectus
<i>"Manager"</i>	: Westcomb Capital Pte Ltd
<i>"Market Day"</i>	: A day on which the SGX-ST is open for trading in securities
<i>"MAS" or "Authority"</i>	: The Monetary Authority of Singapore
<i>"MNC"</i>	: Multi-national corporation
<i>"MRT"</i>	: Mass rapid transit transport system
<i>"New Shares"</i>	: The 27,000,000 new ordinary Shares for which we invite applications to subscribe for pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus
<i>"Nominating Committee"</i>	: The nominating committee of our Company
<i>"Non-executive Directors"</i>	: The non-executive Directors of our Company as at the date of this Prospectus
<i>"NTA"</i>	: Net Tangible Assets
<i>"OEM"</i>	: Original Equipment Manufacturer
<i>"Offer"</i>	: The invitation by our Company and the Vendors to the public in Singapore of the Offer Shares at the Invitation Price, subject to and on the terms and conditions of this Prospectus
<i>"Offer Shares"</i>	: 1,500,000 of the Invitation Shares which are the subject of the Offer
<i>"Option(s)"</i>	: The options granted or which may be granted pursuant to the "ISDN Holdings Share Option Scheme"
<i>"Option Shares"</i>	: The new Shares (not exceeding 15% of the issued share capital of our Company on the date preceding the grant of an Option) which may be allotted and issued upon the exercise of options granted under the ISDN Holdings Share Option Scheme

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## DEFINITIONS

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<i>“Participating Banks”</i>	: DBS Bank Ltd (including POSB) (“DBS Bank”), Oversea-Chinese Banking Corporation Limited (“OCBC”) and United Overseas Bank Limited (including its subsidiary, Far Eastern Bank Limited) (the “UOB Group”)
<i>“PER”</i>	: Price earnings ratio
<i>“Placement”</i>	: The placement of the Placement Shares by the Placement Agent on behalf of our Company and the Vendors at the Invitation Price subject to and on the terms and conditions of this Prospectus
<i>“Placement Agent and Underwriter”</i>	: Westcomb Securities Pte Ltd
<i>“Placement Shares”</i>	: 34,130,000 of the Invitation Shares, which are the subject of the Placement (excluding the Reserved Shares and Internet Placement Shares)
<i>“PRC” or “China”</i>	: The People’s Republic of China (excluding Hong Kong and Macau)
<i>“Remuneration Committee”</i>	: The remuneration committee of our Company
<i>“Reserved Shares”</i>	: 3,970,000 of the Invitation Shares, which are reserved for our employees, customers, suppliers and persons who have contributed to the success of our Group
<i>“Restructuring Exercise”</i>	: The corporate restructuring exercise undertaken in connection with the Invitation as described in the section entitled “Restructuring Exercise” in this Prospectus
<i>“Securities Account”</i>	: The securities account maintained by a depositor with CDP
<i>“Securities and Futures Act”</i>	: The Securities and Futures Act (Cap. 289) of Singapore
<i>“Shares”</i>	: Ordinary shares of S\$0.05 each in the capital of our Company
<i>“Share Option Scheme”</i>	: The ISDN Holdings Share Option Scheme set out in the section entitled “ISDN Holdings Share Option Scheme” in this Prospectus
<i>“SME”</i>	: Small and medium enterprise
<i>“Substantial Shareholder”</i>	: A person who directly or indirectly owns 5% or more of the issued share capital of our Company
<i>“USA”</i>	: United States of America
<i>“Vendors”</i>	: Assetraise Holdings Limited and Tay Gim Sin Leonard
<i>“Vendor Shares”</i>	: The 12,700,000 Shares for which the Vendors invite applications to purchase pursuant to the Invitation, subject to and on the terms and conditions of this Prospectus

### **Currencies, Units and Others**

<i>“CHF”</i>	: Swiss francs
<i>“EUD”</i>	: Euro dollars

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## DEFINITIONS

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<i>"HK\$" and HK cents"</i>	: Hong Kong dollars and cents respectively
<i>"JPY"</i>	: Japanese yen
<i>"RM" and "RM cents"</i>	: Malaysian ringgit and cents respectively
<i>"RMB" and "RMB cents"</i>	: Renminbi, the lawful currency of the PRC
<i>"sq.ft."</i>	: Square feet
<i>"sq.m"</i>	: Square metres
<i>"S\$", "\$" and "cents"</i>	: Singapore dollars and cents respectively
<i>"THB"</i>	: Thai baht
<i>"US\$" and "US cents"</i>	: US dollars and cents respectively
<i>"%" or "per cent."</i>	: Per centum or percentage

The expressions "Depositor", "Depository Agent" and "Depository Register" shall have the meanings ascribed to them respectively in Section 130A of the Companies Act.

Words importing the singular shall, where applicable, include the plural and *vice versa* and words importing the masculine gender shall, where applicable, include the feminine and neuter genders and *vice versa*. References to persons shall include corporations.

Any reference in this Prospectus and the Application Forms to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Companies Act or any statutory modification thereof and used in this Prospectus and the Application Forms shall, where applicable, have the meaning assigned to it under the Companies Act, the Securities and Futures Act or such statutory modification, as the case may be.

Any reference in this Prospectus and the Application Forms to Shares being allotted and/or allocated to an applicant includes allotment and/or allocation to CDP for the account of that Applicant.

Any reference to a time of day in this Prospectus shall be a reference to Singapore time unless otherwise stated.

Names with Chinese characters have been translated into English names. Such translations are provided solely for the convenience of Singapore-based investors and should not be construed as representations that the English names actually represent the Chinese characters.

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## GLOSSARY OF TECHNICAL TERMS

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To facilitate a better understanding of the business of our Group, the following glossary provides a description of some of the technical terms and abbreviations commonly found in our industry. The terms and their assigned meanings may not correspond to standard industry or common meanings, as the case may be, or usage of these terms:-

AC motor	: A motor operated by alternating current that converts electrical energy into mechanical energy.
Actuator	: A mechanism that provides linear or rotary motion activated by electric, pneumatic or hydraulic power.
Ballscrew	: An assembly comprising a ball screw shaft and ball nut, which is capable of converting rotary motion to linear motion and vice versa. The rolling elements of the assembly are balls.
Coupling	: A component that joins or connects two rotating shafts together to transmit power.
DC motor	: A motor operated by direct current that converts electrical energy into mechanical energy.
DT Analyst	: DT Analyst is a scalable, component-based software solution designed to provide insight into the events that cause production systems (or their components) to stop functioning, thereby assisting its users to identify problem areas in their production process.
FactorySuite 2000	: A software programme used in a batch manufacturing environment to collect and manage information on production operations; visualise and analyse the process and track and improve production operations.
Human Machine Interface	: Graphical user interface (GUI) between a machine, automation control system, or the process control system and human operator.
InBatch	: InBatch is a software component which controls the execution of production sequences, such as recipes and verifies that operators execute their activities in the proper sequence, thereby ensuring consistent product quality between batches. It provides an environment that allows manufacturers to react quickly to new products, changing customer schedules and unexpected plant floor events.
InControl	: InControl is a Microsoft-based real-time open architecture control component that allows the user to design, create, test and run application programmes for controlling the processes in a production environment.
Industrial Application Server	: The Industrial Application Server is a software component for use in industrial automation applications which has an alarm and event management, data manipulation services and collaborative engineering capabilities.
Industrial automation software	: Software specially developed to control industrial I/O, motion and vision device in an automated environment.
Industrial computer system	: A group of interacting, interrelated, or interdependent computers forming a complex computer system for use in the industrial sector.

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## GLOSSARY OF TECHNICAL TERMS

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IndustrialSQL Server	: IndustrialSQL Server is a software component which can store historical production data.
InTouch	: A process visualisation software; graphical human-machine interface for industrial automation, process control and supervisory control.
InTrack	: InTrack is a software component commonly found in supply chain management systems to provide real-time event data and information, which includes a complete history of materials used in a product's manufacturing process.
I/O Server	: Input-output server. A software and/or hardware device that provides the connectivity for control hardware, acting as a communication protocol server and allows windows application programs access to data in the control hardware.
Lead screw	: An assembly, comprising a screw nut and a screw shaft, which is capable of converting rotary motion to linear motion and vice versa.
Linear actuator	: A mechanism that provides linear motion activator by electric pneumatic or hydraulic power.
Linear motion guides	: An assembly, comprising guide rails and runner blocks, which either runs on bearings or on a sliding principle.
Linear servo motor	: A motor which converts electrical energy to mechanical energy by producing linear movement.
Motion controller	: An electronic device which controls the position of a stepper, servo, pneumatic or hydraulic motor.
PLC	: Abbreviation for programmable logic controller which is used to control a sequence of events and motion in an automated machine or factory.
Precision gear reducer	: A gear reducer which eliminates backlash and lowers the loss in motion while producing an output turning speed lower than the input turning speed.
Servo amplifier	: An electronic board used to drive the servo motor.
Servo drive	: An electronic board used to drive the servo motor.
Servo motor	: An electric motor with a feedback unit installed to provide position or velocity feedback to a controller which in turn positions the motor shaft at the desired position or rotate it at a desired speed.
Stepper drive	: An electronic board used to drive the stepper motor.
Stepper motor	: A motor that moves or rotates in small discrete steps such as a device that converts any form of energy into mechanical energy or an arrangement of coils and magnets that converts electric current into mechanical power.
SuiteVoyager	: SuiteVoyager is an industrial information portal which enables its users to visualise real time and historical information from their existing industrial processes through the internet or intranet with the use of a specialised browser.



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## GLOSSARY OF TECHNICAL TERMS

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Timing belt	: A belt with integrated teeth usually of reinforced rubber or polyurethane with steel tension members which provide transmission of power.
Timing pulley	: Timing pulleys are used when a system needs to deliver precise positioning accuracy or repeatability. The teeth on the circumference of the pulley help to control belt creep in a typical belt system.
Touch screen monitor	: Touch sensitive surface on which a picture is projected for viewing on an electronic device used to record, regulate or control a process or system.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

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All statements contained in this Prospectus, statements made in press releases and oral statements that may be made by us or our Directors, the Vendors, Executive Officers or employees acting on our behalf, that are not statements of historical fact, constitute “forward-looking statements”. You can identify some of these statements by forward-looking terms such as “expect”, “believe”, “plan”, “intend”, “estimate”, “anticipate”, “may”, “will”, “would” and “could” or similar words. However, you should note that these words are not the exhaustive means of identifying forward-looking statements. All statements regarding our expected financial position, business strategy, plans and prospects are forward-looking statements.

These forward-looking statements, including statements as to our revenue, profitability, prospects, future plans and other matters discussed in this Prospectus regarding matters that are not historical facts are only predictions. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expected, expressed or implied by such forward-looking statements. Some of these risk factors are discussed in more detail under the section entitled “Risk Factors” in this Prospectus.

Given the risks and uncertainties that may cause our actual future results, performance or achievements to be materially different than expected, expressed or implied by the forward-looking statements in this Prospectus, undue reliance must not be placed on these forward-looking statements. Neither our Company, nor any person represents or warrants that our Group's actual future results, performance or achievements will be as discussed in those forward-looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of the risks faced by us. We, the Vendors and the Manager disclaim any responsibility to update any of those forward-looking statements or publicly announce any revisions to those forward-looking statements to reflect future developments, events or circumstances. We are, however, subject to the provisions of the Securities and Futures Act and the Listing Manual of the SGX-ST regarding corporate disclosure. In particular, pursuant to Section 241 of the Securities and Futures Act, if after the Prospectus is registered but before the close of the Offer, the Company becomes aware of: (a) a false or misleading statement or matter in the Prospectus; (b) an omission from the Prospectus of any information that should have been included in it under Section 243 or 244 of the Securities and Futures Act; or (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Sections 243 or 244 of the Securities and Futures Act to be included in the Prospectus, if it had arisen before the prospectus was lodged and is materially adverse from the point of view of an investor, we may lodge a supplementary or replacement prospectus with the Authority.

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## DETAILS OF THE INVITATION

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### LISTING ON THE SGX-ST

We have applied to the SGX-ST for permission to deal in, and for quotation of, all our Shares already issued, as well as the New Shares and the Option Shares on the SGX-ST. Such permission will be granted when our Company has been admitted to the Official List of SGX-ST. Our acceptance of your applications for our Shares will be conditional upon, *inter alia*, the issue of the New Shares and permission being granted to deal in, and for quotation of, all our existing issued Shares, the New Shares and the Option Shares. Monies paid in respect of any application accepted will, subject to applicable laws, be returned to you at your own risk, without interest or any share of revenue or other benefit arising therefrom, if this Invitation is not completed because the said permission is not granted, you will not have any claim against us, the Vendors, the Manager or the Placement Agent and Underwriter.

The SGX-ST assumes no responsibility for the correctness of any of the statements made, opinions expressed or reports contained in this Prospectus. Admission to the Official List of SGX-ST is not to be taken as an indication of the merits of this Invitation, our Company, our subsidiaries, our Shares, the New Shares or the Option Shares.

A copy of this Prospectus has been lodged with and registered by the Authority. The Authority assumes no responsibility for the contents of this Prospectus. Registration of this Prospectus by the Authority does not imply that the Securities and Futures Act, or any other legal or regulatory requirements, have been complied with. The Authority has not, in any way, considered the merits of our Shares, the New Shares or the Option Shares, as the case may be, being offered or in respect of which an invitation is made, for investment.

No Shares shall be allotted or allocated on the basis of this Prospectus later than six months after the date of registration of this Prospectus.

This Prospectus has been seen and approved by our Directors and the Vendors and they individually and collectively accept full responsibility for the accuracy of the information given in this Prospectus and confirm that the facts contained in this Prospectus are true, accurate and not misleading, that all expressions of opinion, intention and expectation contained herein are honestly held and made after due and careful consideration, that to the best of their knowledge, information and belief, this Prospectus constitutes full and true disclosure of all material facts about this Invitation, our Company, our subsidiaries, our Shares, the New Shares or the Option Shares and that there are no other facts the omission of which would make any statement herein misleading.

No person is authorised to give any information or to make any representation not contained in this Prospectus in connection with this Invitation and, if given or made, such information or representation must not be relied upon as having been authorised by our Company, the Vendors, the Manager or the Placement Agent and Underwriter. Neither the delivery of this Prospectus and the Application Forms nor this Invitation shall, under any circumstances, constitute a continuing representation or create any suggestion or implication that there has been no change in the affairs of our Company or of our subsidiaries or in any statements of fact or information contained in this Prospectus since the date of this Prospectus. Where such changes occur, our Company may make an announcement of the same to the SGX-ST and if required under the Securities and Futures Act, a supplementary or replacement prospectus will be issued and made available to the public after a copy thereof has been lodged with the Authority in Singapore.

All applicants should take note of any such announcement and/or supplementary prospectus and/or replacement prospectus and, upon release of such an announcement and/or supplementary prospectus and/or replacement prospectus, applicants shall be deemed to have notice of such changes. Save as expressly stated in this Prospectus, nothing herein is, or may be relied upon as, a promise or representation as to the future performance or policies of our Company or our subsidiaries.

In the event that a supplementary or replacement prospectus is lodged with the Authority, our Invitation shall be kept open for at least 14 days after the lodgment of such supplementary or replacement prospectus.

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## DETAILS OF THE INVITATION

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Where prior to the lodgment of the supplementary or replacement prospectus, applications have been made under this Prospectus to subscribe for and/or purchase our Shares and:

- (a) where our Shares have not been issued to the applicants, our Company shall either:-
  - (i) within 7 days from the date of lodgment of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to withdraw their applications; or
  - (ii) treat the applications as withdrawn and cancelled, in which case the applications shall be deemed to have been withdrawn and cancelled, and our Company shall, within 7 days from the date of lodgment of the supplementary or replacement prospectus, pay to the applicants all monies the applicants have paid on account of their applications for our Shares; or
- (b) where our Shares have been issued to the applicants, our Company shall either:-
  - (i) within 7 days from the date of lodgment of the supplementary or replacement prospectus, give the applicants the supplementary or replacement prospectus, as the case may be, and provide the applicants with an option to return to our Company our Shares, which they do not wish to retain title in; or
  - (ii) treat the issue of our Shares as void, in which case the issue shall be deemed void and our Company shall, within 7 days from the date of lodgment of the supplementary or replacement prospectus, pay to the applicants all monies paid by them for our Shares.

An applicant who wishes to exercise his option under paragraph (a)(i) to withdraw his application shall, within 14 days from the date of lodgment of the supplementary or replacement prospectus, notify our Company of this, whereupon our Company shall, within 7 days from the receipt of such notification, pay to him all monies paid by him on account of his application for our Shares.

An applicant who wishes to exercise his option under paragraph (b)(i) to return our Shares issued to him shall, within 14 days from the date of lodgment of the supplementary or replacement prospectus, notify our Company of this and return all documents, if any, purporting to be evidence of title to those Shares, to our Company, whereupon our Company shall, within 7 days from the receipt of such notification and documents, if any, pay to him all monies paid by him for those Shares and the issue of those Shares shall be deemed to be void.

Under the Securities and Futures Act, the Authority may, in certain circumstances issue a stop order (the "stop order") to the Company, directing that no or no further Shares to which this Prospectus relates, be allotted, issued or sold. Such circumstances will include a situation where this Prospectus (a) contains a statement or matter, which in the opinion of the Authority is false or misleading, (b) omits any information that should be included in accordance with the Securities and Futures Act or (c) does not, in the opinion of the Authority, comply with the requirements of the Securities and Futures Act.

Where the Authority issues a stop order pursuant to Section 242 of the Securities and Futures Act, and

- (a) in the case where the Invitation Shares have not been issued and/or transferred to the applicants, the applications of the Invitation Shares pursuant to the Invitation shall be deemed to have been withdrawn and cancelled and our Company shall, within 14 days from the date of the stop order, pay to the applicants all monies the applications have paid on account of their applications for the Invitation Shares; or
- (b) in the case where the Invitation Shares have been issued and/or transferred to the applicants, the issue and/or transferred of the Invitation Shares pursuant to the Invitation shall be deemed to be void and our Company shall, within 14 days from the date of the stop order, pay to the applicants all monies paid by them for the Invitation Shares.

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## DETAILS OF THE INVITATION

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The Invitation Shares are offered for subscription and/or purchase solely on the basis of the information contained and the representations made in this Prospectus.

Neither our Company, the Vendors, the Manager, the Placement Agent and Underwriter nor any other parties involved in the Invitation is making any representation to any person regarding the legality of an investment in our Shares by such person under any investment or other laws or regulations. No information in this Prospectus should be considered as being business, legal or tax advice. Each prospective investor should consult his own professional or other advisers for business, legal or tax advice regarding an investment in our Shares.

This Prospectus has been prepared solely for the purpose of the Invitation and may not be relied upon by any persons other than the applicants in connection with their application for the Invitation Shares or for any other purpose. **This Prospectus does not constitute an offer, solicitation or invitation to subscribe for or purchase our Shares in any jurisdiction in which such offer, solicitation or invitation is unlawful or is not authorised and does not constitute an offer, solicitation or invitation or to any person to whom it is unlawful to make such offer, solicitation or invitation.**

Copies of this Prospectus and the Application Forms may be obtained on request, subject to availability, during office hours from:

**Westcomb Securities Pte Ltd  
5 Shenton Way  
#09-08 UIC Building  
Singapore 068808**

and from members of the Association of Banks in Singapore, members of the SGX-ST and merchant banks in Singapore. A copy of this Prospectus is also available on the SGX-ST website <http://www.sgx.com> and the Authority's website at <http://www.mas.gov.sg>.

The Application List will open at 10.00 a.m. on 22 November 2005 and will remain open until 12.00 noon on the same day or for such further period or periods as our Directors and the Vendors may, in consultation with the Manager, decide, subject to any limitation under all applicable laws. Where a supplementary document or replacement document has been lodged with the Authority, the Application List shall be kept open for at least 14 days after the lodgment of the supplementary document or replacement document. Where an applicant has notified our Company within 14 days from the date of lodgment of the supplementary document or replacement document of his wish to exercise his option under the Securities and Futures Act to withdraw his application, our Company shall pay to him all monies paid by him on account of his application for the Invitation Shares without interest or any share of revenue or other benefit arising therefrom and at the applicant's risk within 7 days from the receipt of such notification.

Details for the procedure for application for the Invitation Shares are set out in Appendix A of this Prospectus.



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## DETAILS OF THE INVITATION

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### Indicative Timetable for Listing

An indicative timetable is set out for reference of applicants:-

Indicative time/date	Event
12.00 noon on 22 November 2005	Close of Application List
23 November 2005	Balloting of applications, if necessary (in the event of over-subscription for the Offer Shares)
9.00 a.m. on 24 November 2005	Commence trading on a “ready” basis
29 November 2005	Settlement date for all trades done on a “ready” basis on 24 November 2005

The above timetable is only indicative as it assumes that the date of closing of the Application List is 22 November 2005, the date of admission of our Company to the Official List of the SGX-ST is 24 November 2005, the shareholding spread requirement will be complied with and the Invitation Shares will be issued and fully paid-up prior to 24 November 2005.

The above timetable and procedures may be subject to such modification as the SGX-ST may, in its absolute discretion, decide, including the decision to permit trading on a “when issued” basis and the commencement date of such trading.

In the event of any changes in the closure of the Application List or the time period during which the Invitation is open, we will publicly announce the same: -

- (a) through SGXNET announcement to be posted on the internet at the SGX-ST website <http://www.sgx.com>; and
- (b) in a local English newspaper, namely, The Straits Times.

Investors should consult the SGX-ST’s announcement on “ready” trading date on the Internet (at SGX-ST website <http://www.sgx.com>), INTV or the newspapers or check with their brokers on the date on which trading on a “ready” basis will commence.

We will provide details of the results of the Invitation through the channels in (a) and (b) above.

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## PLAN OF DISTRIBUTION

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The Invitation Price is determined by us and the Vendors, after negotiations with the Manager and the Placement Agent and Underwriter, based on prevailing market conditions and estimated market demand for our Shares determined through a book-building process. The Invitation Price is the same for all Invitation Shares and is payable in full on application.

This section should be read in conjunction with, and is qualified in its entirety by reference to, the section “Terms and Conditions and Procedures for Application and Acceptance” in Appendix A of this Prospectus.

Investors may apply to subscribe for and/or purchase any number of Invitation Shares in integral multiples of 1,000 Shares. In order to ensure a reasonable spread of shareholders, we have the absolute discretion to prescribe a limit to the number of Invitation Shares to be allotted to any single applicant and/or to allot Invitation Shares above or under such prescribed limit as we shall deem fit.

Application for the Invitation Shares may be made by one of the following methods: -

### **Public Offer**

Pursuant to the terms and conditions in the management and underwriting agreement (the “Management and Underwriting Agreement”) between our Company, the Vendors, the Manager and the Underwriter dated 15 November 2005, the Manager will receive a management fee from our Company for agreeing to manage the Invitation and the Underwriter has agreed to underwrite our Offer Shares for a commission of 2.25% of the Invitation Price for each Offer Share, payable by our Company and the Vendors pursuant to the Invitation. The Underwriter may, at its absolute discretion, appoint one or more sub-underwriters for the Offer Shares.

Brokerage will be paid by our Company to members of the SGX-ST, merchant banks and members of the Association of Banks in Singapore in respect of accepted applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at their respective ATMs or IB websites at the rate of 0.25% of the Invitation Price for each Offer Share.

In the event of an under-subscription for the Offer Shares as at the close of the Application List, that number of Offer Shares not subscribed for shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List.

In the event of an over-subscription for the Offer Shares as at the close of the Application List and/or the Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for the Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

The Management and Underwriting Agreement may be terminated by the Manager at any time on or before the close of the Application List on the occurrence of certain events including, *inter alia*:

- (a) the issue of a stop order by the Authority in accordance with Section 242 of the Securities and Futures Act; or
- (b) event or events which has or have resulted or is in the reasonable opinion of the Manager likely to result in the conditions in the stock market and/or stock markets overseas being materially and adversely affected; or the success of the Invitation being materially prejudiced, or it becoming inadvisable, inexpedient or not commercially viable or otherwise contrary to or outside the usual commercial customs or practices in Singapore for the Manager to observe or perform or be obliged to observe or perform the terms of the Management and Underwriting Agreement or the Invitation, or the business, trading position, operations or prospects of our Group being materially and adversely affected.

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## PLAN OF DISTRIBUTION

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### Offer Shares

The Offer Shares are made available to members of the public in Singapore for subscription at the Invitation Price. Investors may apply for Offer Shares pursuant to the Offer by way of printed Application Forms, IB websites or ATMs belonging to the Participating Banks.

An applicant, other than an approved nominee company who has made an application for Offer Shares in his own name, may not submit another separate application for Offer Shares whether by way of an Application Form or by way of an IB or ATM Application, for any other person. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares by way of an Offer Shares Application Form may not make another separate application for Offer Shares by way of an IB or ATM Application and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.

An applicant who has made an application for Offer Shares either by way of an Offer Shares Application Form or by way of an IB or ATM Application shall not make any separate application for Placement Shares by way of a Placement Shares Application Form. Such separate application shall be deemed to be multiple applications and shall be rejected.

Additional terms and conditions of and the procedures for the application for Offer Shares by way of Application Forms and IB or ATM Applications are set out in Appendix A of this Prospectus.

### Placement

Pursuant to the terms and conditions in the Placement Agreement (the "Placement Agreement") between our Company, the Vendors and the Placement Agent dated 15 November 2005, the Placement Agent has agreed to subscribe for and/or procure subscriptions for the Placement Shares for a placement commission of 2.50% of the Invitation Price for each Placement Share, payable by our Company and the Vendors pursuant to the Invitation. The Placement Agent may, at its absolute discretion, appoint one or more sub-placement agents for the Placement Shares.

Subscribers of Placement Shares may be required to pay a brokerage (and if so required, such brokerage will be up to 1.00% of the Invitation Price) as well as stamp taxes and any other ancillary charges to the Placement Agent.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, that numbers of Placement Shares not subscribed for and/or purchased shall be made available to satisfy excess applications for the Offer Shares to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Reserved Shares as at the close of the Application List, that numbers of Reserved Shares not subscribed for and/or purchased shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List, or, in the event of an under-subscription for the Placement Shares as at the close of the Application List, to satisfy excess applications for the Offer Shares to the extent there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Internet Placement Shares to be applied for through the IPO Website as at the close of the Application List, that number of Internet Placement Shares not subscribed for and/or purchased shall be made available to satisfy excess applications for the Placement Shares to the extent there is an over-subscription for the Placement Shares as at the close of the Application List or to satisfy excess applications for the Offer Shares, to the extent there is an over subscription for the Offer Shares at the close of the Application List.

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## PLAN OF DISTRIBUTION

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The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement.

### **Placement Shares (other than the Reserved Shares and the Internet Placement Shares)**

The Placement Shares are reserved for placement to members of the public and institutional investors in Singapore at the Invitation Price. Application for the Placement Shares (other than the Reserved Shares and the Internet Placement Shares) pursuant to the Placement may only be made by way of Placement Shares Application Forms.

An applicant who applies for the Placement Shares must complete a Placement Shares Application Form, and shall not make any separate application for the Placement Shares using another Placement Shares Application Form or for the Internet Placement Shares through the IPO website or for the Offer Shares (either using an Offer Share Application Form or by way of an IB or ATM Application). Such separate applications shall be deemed to be multiple applications and shall be rejected.

Additional terms and conditions of and the procedures for the application for Placement Shares are set out in Appendix A of this Prospectus.

### **Reserved Shares**

The Reserved Shares are reserved for placement to our employees, customers, suppliers and persons who have contributed to the success of our Group.

An applicant who applies for the Reserved Shares must complete a Reserved Shares Application Form.

Additional terms and conditions of and the procedures for the application for Reserved Shares are set out in Appendix A of this Prospectus.

### **Internet Placement Shares**

The Internet Placement Shares are reserved for placement to Qualifying Internet Applicants. Qualifying Internet Applicants may apply for the Internet Placement Shares through the IPO website.

The offer of the Internet Placement Shares through the IPO website, will be on a first-come-first-served basis cum balloting basis:-

- (a) each valid application ("Valid FCFS Application") received for Internet Placement Shares shall first be deemed to be made for 50,000 Internet Placement Shares on a first-come-first served basis ("FCFS Internet Placement Shares), and is subject to availability at the time of application; and
- (b) each excess Valid FCFS Application ("Valid Ballot Applications") for the FCFS Internet Placement Shares shall then be deemed to be made for the remaining 50,000 Internet Placement Shares ("Ballot Internet Placement Shares").

In the event that there are excess Valid Ballot Applications for Ballot Internet Placement Shares, successful Valid Ballot Application for Ballot Internet Placement Shares shall be determined by ballot conducted by the IPO Website Operator. If you have applied for Internet Placement Shares via (a) above, you will be prohibited from applying for additional Internet Placement Shares via (b) above.

A Qualifying Internet Applicant who has made an application for Internet Placement Shares through the IPO website shall not make any separate application for Placement Shares by way of a Placement Shares Application Form or by way of another application through the IPO website, or for the Offer Shares (either using an Offer Shares Application Form or by way of an IB or ATM Application).

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## PLAN OF DISTRIBUTION

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Such separate applications will be deemed to be multiple applications and shall be rejected.

A Qualifying Internet Applicant whose application for Internet Placement Shares is rejected because of multiple applications will be levied an administrative fee amounting to 20% of the Qualifying Internet Applicant's application subscription monies (GST included).

Additional terms and conditions and the procedures for the application for Internet Placement Shares through the IPO website are set out in Appendix A of this Prospectus.

We are not aware of any person who intends to subscribe for and/or purchase more than 5% of the Invitation Shares. However, in the process of assessing market demand for our Shares, there may be person(s) who may indicate his interest to subscribe for and/or purchase more than 5% of the Invitation Shares.

None of our existing Shareholders or Directors intends to subscribe for any Invitation Shares.

Further, no Shares shall be allocated or allotted on the basis of this Prospectus later than six months after the date of this Prospectus.



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## PROSPECTUS SUMMARY

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The following summary highlights certain information found in greater detail elsewhere in this Prospectus. In addition to this summary, we urge you to read the entire Prospectus carefully, especially the section on “Risk Factors”, before deciding to invest in our Shares.

### OVERVIEW OF OUR GROUP

#### Our Group

We are a mechatronics engineering Group providing integrated solutions to our motion control and industrial computing customers, including design, customisation, assembly, installation and after sales support.

#### Our Business

Our business is divided into two segments, namely:-

- (a) Motion Control Division; and
- (b) Industrial Computing Division.

#### (a) MOTION CONTROL DIVISION

Motion control is the accurate control of the movement of an object (by a combination of mechanical movements) based on either speed, distance, load, inertia or combination of all these factors. Thus a motion control system is a precise electro-mechanical assembly that can be a functional module of a machine or a complete machine by itself.

Our Motion Control Division is an integrated solutions provider that specialises in the design, assembly, sale and installation of motion control systems commissioned by our mainly MNC and SME customers for their equipment. We design and assemble major functional modules for semiconductor manufacturing equipment such as SMT machines, wafer processing equipment and for X-ray machines, industrial robots and disk drive testing machines.

Our Motion Control Division designs, assembles and installs motion control systems for our customers from a wide range of industries including, semiconductor, general automation, manufacturing and hard disk.

#### (b) INDUSTRIAL COMPUTING DIVISION

Our Industrial Computing Division provides integrated solutions to cater to the industrial computing needs of our customers. Under this division, we customise and sell a wide range of industrial hardware and software to our customers. Most of our customers in this business division are manufacturers of factory automation systems for various industries such as semiconductor, general automation, manufacturing and hard disk.

We provide hardware and software solutions to meet our customers' industrial computing needs. Our products and services include customising and assembling industrial computer systems and installation of software on the system for our customers. These industrial computer systems may be used for the manufacturing and production process in the oil and gas, medical, water treatment, telecommunication and semiconductor industries.

#### Our Competitive Strengths

##### (a) We possess strong design and development capabilities

As at the Latest Practicable Date, we have engaged a dedicated team of 46 technical engineers, representing approximately 20% of the staff strength of our entire Group, which enable us to design, assemble and provide after sales service support for motion control systems which we design for our customers.

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## PROSPECTUS SUMMARY

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Our ability to design, assemble and install sophisticated motion control systems for our customers allows us to establish a strong presence in the motion control systems industry, as customers with special needs rely on us to provide our customised motion control systems to satisfy their requirements.

**(b) Joint venture and alliances with our strategic partner Interelectric Ag**

We have a long term business relationship with our strategic partner, Interelectric Ag. Interelectric Ag, is the holding company of Maxon Motor Ag, our major supplier, and has operations in Europe, America and Asia, is one of the leading global suppliers of high-tech drive components and systems.

Interelectric Ag cooperates with us to sell and to create awareness for their products in the territories in which we operate. We have also entered into a joint venture with them to establish Maxon Suzhou, a company incorporated in the PRC engaged in the assembly of motion control systems containing “Maxon Motor” motion control components for sale in the PRC market through our liaison offices established in various parts of the PRC.

**(c) Strong business network in the Greater China and regional presence in growth markets**

We have subsidiaries and joint venture companies in Hong Kong and various cities in the PRC such as Suzhou, Chongqing, Shenzhen, Shanghai and Beijing. Our subsidiaries and joint venture companies in these various parts of the Greater China enable us to provide better support to our customers located in the Greater China and to meet the needs of our Greater China customers in a more efficient manner. In addition, our business network covers other major cities in the PRC, such as Mianyang, Shenyang, Xi'an, Harbin, Fuzhou, Chengdu, Guangzhou and Wuhan.

In addition, we have established subsidiaries in Thailand and Malaysia, a joint venture company in Malaysia and associated companies in the Philippines and Singapore.

**(d) Diverse supplier base and wide range of products**

We offer a wide and comprehensive range of motion control systems containing components such as servo motors and drives, stepper motors and drives, linear bearings, Wonderware software, mechanical components, LCD monitors and industrial computing components which allow us to provide integrated solutions to our customers to meet their motion control and industrial computing needs. We are also constantly searching for newer and more advanced motion control and industrial computing components in addition to the solutions provided to meet our customers' changing needs.

**(e) Diverse customer base**

As at the Latest Practicable Date, we have a large customer base of more than 2,000 customers who have purchased our motion control and industrial computing systems. These customers, some of which are SMEs, MNCs and governmental bodies, are from various industries, such as the semiconductor, general automation, manufacturing and hard disk industries.

**(f) Established track record**

The history of our Group dates back to 1987. As at Latest Practicable Date, we have established and maintained good relationships with our customers located in Singapore, the PRC, Hong Kong, Thailand, Malaysia and the Philippines, amongst others. Approximately 80% of our existing customers are repeat customers and our customer base has been expanding by an average of between 10% and 20% yearly since 1987.

**(g) Experienced management team**

Our management team comprises our Managing Director and President, Teo Cher Koon, our Executive Director and Senior Vice President – PRC Operations, Kong Deyang and our Executive Officers who are dedicated and committed to the success of our business and operations. Our Executive Directors have collectively more than 30 years experience in the motion control systems and industrial computing industries and our Executive Officers have an average of 8 years experience in these industries.

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## PROSPECTUS SUMMARY

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### Our Future Plans

#### (a) Acquisitions, Joint Ventures and Strategic Alliances

We have entered into an agreement with a German company to establish a company in the PRC for the manufacture of motion control components. The initial investment sum is approximately S\$257,000.

In addition, we have entered into an agreement with a Taiwanese company to invest an initial sum of approximately S\$150,000 to acquire a 19% stake in it by 31 December 2005. The Taiwanese company is engaged in the research and development and the manufacture of motion control components.

We have also entered into an agreement with Goh Yiu Jin to acquire a 67% stake in a Singapore company known as JM Vistec System Pte Ltd, which is engaged in the supply of vision related products. Pursuant to the Agreement, our subsidiary MCG subscribed for 67% of the equity stake in JM Vistec for an aggregate consideration of S\$300,000. As at the Latest Practicable Date, the Company has been allotted and issued 67% of the equity stake in JM Vistec and has paid S\$100,000 for its subscription through the Company's internal source of funds. The remaining S\$200,000 would be paid with the proceeds obtained through this Invitation. The consideration sum of S\$300,000 agreed for the 67% equity stake in JM Vistec is based on a "willing buyer and willing seller" basis. Our Directors are of the view that the consideration sum of S\$300,000 represents a fair market value for the 67% equity stake in JM Vistec.

Through these acquisitions, joint ventures and strategic alliances, we hope to create opportunities for us to compete more effectively against our competitors by manufacturing our own motion control components and enhancing our technical abilities through design and development efforts.

#### (b) To expand and develop our existing operations

We have plans to expand and develop our operations in countries where we currently have a presence such as the PRC, Thailand and the Philippines. We intend to expand our sales network in these countries, through the establishment of more sales offices and increase our sales staff, to increase our sales activities. In addition, we intend to increase our assembly capabilities in the PRC and Thailand through the acquisition of more equipment.

#### (c) To expand geographical coverage of our markets

Currently, our principal markets are Singapore and the Greater China. In order to expand our customer base and sales and business networks, we have plans to expand our geographic coverage through the expansion of our businesses into new markets in Asia, including Indonesia, India and Vietnam. This would give us access to the customer base in these countries and allow us to establish new business networks in these countries.

#### (d) To establish an integrated computerised system for our operations

We intend to establish an integrated computerised system, namely Enterprise Resource Planning ("ERP"), for our operations. The establishment of the ERP will facilitate our operations, including the accounting functions of our Group and the ordering of stocks, resulting in better management and better internal control. The ERP will allow us to have access to real-time inventory information thereby increasing our efficiency over the control of our inventory.

### Where you can find us

Our principal place of business is located at No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175. Our telephone number and fax numbers are (65) 6844 0288 and (65) 6844 0070 respectively.

## THE INVITATION

Invitation Size	: 39,700,000 Invitation Shares, comprising 27,000,000 New Shares and 12,700,000 Vendor Shares.  The New Shares, upon issue and allotment, will rank <i>pari passu</i> in all respects with the existing issued Shares.
The Invitation	: The Invitation comprises an invitation by our Company to the public in Singapore to subscribe for and/or purchase 39,700,000 Invitation Shares at the Invitation Price, subject to and on the terms and conditions of this Prospectus.
Invitation Price	: S\$0.29 for each Invitation Share
Purpose of the Invitation	: Our Directors consider that the listing of our Company and the quotation of our Shares on the SGX-ST will enhance our public image locally and overseas and enable us to tap the capital markets for the expansion of our operations. The Invitation will also provide members of the public as well as those who have contributed to our success with an opportunity to participate in the equity of our Company.
The Offer	: The Offer comprises an invitation by our Company and the Vendors to the public in Singapore to subscribe for and/or purchase the 1,500,000 Offer Shares at the Invitation Price, subject to and on the terms and conditions of this Prospectus.
The Placement	: The Placement comprises a placement of 38,200,000 Placement Shares including 3,970,000 Reserved Shares and 100,000 Internet Placement Shares.
Reserved Shares	: 3,970,000 of the Placement Shares will be reserved for our employees, customers, suppliers and persons who have contributed to the success of our Group.
Internet Placement Shares	: 100,000 Internet Placement Shares reserved for applications made through the IPO website <a href="http://www.ePublicOffer.com">www.ePublicOffer.com</a>
Use of proceeds	: The net proceeds from the issue of the New Shares (after deducting estimated Invitation expenses) is approximately S\$6.43 million, which we intend to utilise for the following purposes:  (a) approximately S\$1.50 million for mergers and acquisitions and/or joint ventures with strategic business partners, of which approximately S\$257,000 will be used as an initial investment for the establishment of a joint venture with a German company to manufacture motion control components in the PRC <sup>(1)</sup> , approximately S\$150,000 will be for our initial investment into a Taiwanese company which is engaged in the research and development and the manufacture of motion control components <sup>(2)</sup> and approximately S\$200,000 will be used to invest in JM Vistec, a Singapore company supplying vision related products;

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## THE INVITATION

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- (b) approximately S\$1.00 million to expand and develop our existing operations in the PRC and Thailand of which approximately S\$250,000 will be used to increase the paid up capital in our subsidiary SD Thailand by THB6.00 million and the remaining for the acquisition of machinery and equipment<sup>(3)</sup>;
- (c) approximately S\$500,000 to expand our geographic coverage through the expansion of our businesses into new markets in Asia including Indonesia, India and Vietnam mainly via the setting up of sales offices<sup>(4)</sup>;
- (d) approximately S\$500,000 to establish an integrated computerised system for our operations; and
- (e) the balance will be used for our general working capital requirements.

Details of the above are set out under the section “Prospects and Future Plans” in this Prospectus.

Pending the deployment of the net proceeds from the issue of the New Shares as aforesaid, the funds will be placed in short-term deposits or money market instruments, or used as working capital, as our Directors may deem fit.

**Listing status** : Prior to the Invitation, there had been no public market for our Shares. Our Shares will be quoted on the Main Board of the SGX-ST, subject to admission of our Company to the SGX-ST and permission for dealing in and for quotation of our Shares being granted by the SGX-ST.

**Trading Currency** : The listing and quotation of our Shares will be in Singapore dollars

### Notes:-

- (1) The joint venture company has not been established.
- (2) The investment into the Taiwanese company has not been effected.
- (3) Currently, we have not entered into any agreement for us to increase the registered capital of SD Thailand nor is there any commitment for SD Thailand to acquire any machinery or equipment.
- (4) Currently, we have not entered into any agreement for us to set up any sales office in any new market including Indonesia, India and Vietnam.

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## INVITATION STATISTICS

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<b>Invitation Price</b>	29.00 cents
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### NTA

NTA per share based on the Proforma balance sheet of our Proforma Group as at 31 December 2004 adjusted for the Restructuring Exercise and Dividend Payment, the "Adjusted NTA":-

- |  |            |
|--|------------|
| (a) before adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's pre-Invitation share capital of 131,798,700 Shares | 5.42 cents |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on our Company's post-Invitation share capital of 158,798,700 Shares | 8.55 cents |

Premium of Invitation Price over the Adjusted NTA per Share;

- |  |        |
|--|--------|
| (a) before adjusting for the estimate net proceeds from the issue of the New Shares and based on our Company's pre-Invitation share capital of 131,798,700 Shares  | 435.1% |
| (b) after adjusting for the estimated net proceeds from the issue of the New Shares and based on our company's post-Invitation share capital of 158,798,700 Shares | 239.2% |

### Earnings

Historical net earnings per Share based on the results of our Proforma Group for FY2004 and our Company's pre-Invitation share capital of 131,798,700 Shares	4.39 cents
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Historical net earnings per Share had the Service Agreements <sup>(1)</sup> set out in the section entitled "Service Agreements" of this Prospectus been in effect for FY2004 and based on the Company's pre-Invitation share capital of 131,798,700 Shares.	3.89 cents
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### Price Earnings Ratio

Historical price earnings ratio based on the Invitation Price and the historical net earnings per Share for FY2004	6.6 times
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Historical price earnings ratio based on the historical net earnings per Share had the Service Agreements <sup>(1)</sup> set out in the section entitled "Service Agreements" of this Prospectus been in effect for FY2004	7.5 times
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### Net Operating Cash Flow<sup>(2)</sup>

Historical net operating cash flow per Share for FY2004, based on our Company's pre-Invitation share capital of 131,798,700 Shares	4.63 cents
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### Price to Cash Flow Ratio

Ratio of Invitation Price to historical net operating cash flow per Share of the Group for FY2004 based on the pre-invitation share capital of 131,798,700 Shares	6.3 times
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## INVITATION STATISTICS

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### Market Capitalisation

Our market capitalisation based on the post-Invitation share capital of S\$46.05 million 158,798,700 Shares and the Invitation price of S\$0.29

#### Notes:-

- (1) Had the Service Agreements described in the section entitled "Service Agreement" in this Prospectus been effected in FY2004, the estimated total remuneration for our Executive Directors would have been approximately S\$1.01 million instead of S\$209,000, and profit after tax in respect of FY2004 would have been S\$5.13 million instead of S\$ 5.78 million.
- (2) Net operating cash flow is defined as net profit after tax attributable to shareholders after adding back depreciation expenses.



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## RISK FACTORS

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*We are vulnerable to a number of risks applicable to the industry and the areas in which we operate. Our business, financial condition or results of operations could be materially and adversely affected should any of these risks materialise. To the best of our knowledge and belief as at the date of this Prospectus, all risks that upon developing into actual events would have a material adverse impact on our business, results of operations or financial condition are set out below.*

*This Prospectus also contains forward-looking statements that involves risks and uncertainties. The actual results of our Group could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, the risks faced by our Group as described below and elsewhere in this Prospectus. Before deciding to invest in our Shares, you should consider carefully, with all other information contained elsewhere in this Prospectus, the factors described below and seek professional advice from the relevant advisers about our particular circumstances.*

### **RISKS RELATING TO THE INDUSTRY**

#### **The semiconductor industry which contributes substantially to our revenue is cyclical in nature**

The semiconductor industry from time to time experiences slowdowns due to cyclical fluctuations. These slowdowns will lead to a decrease in business operations of companies in this industry, thereby reducing their demand for our motion control systems and industrial computing systems, which will adversely affect our revenue.

For the past three financial years FY2002, FY2003 and FY2004, the proportion of our revenue earned from this industry are approximately 42.2%, 51.0% and 46.6% of our total revenue respectively. As such, any cyclical downturn in the semiconductor industry may result in a decrease in demand for our motion control systems and industrial computing systems and will have an adverse effect on our financial performance.

#### **We may not be able to keep up with rapid changes in technology and the demands of our customers**

The motion control systems industry in which we operate is characterised by rapid technological changes, frequent new product introductions and technology enhancements, uncertain product life cycles and evolving industry standards. As such, our customers' needs change in line with the rapid advances and changes in technology. New motion control systems based on new or improved technologies or new industry standards can render existing motion control systems obsolete and unmarketable.

To succeed, we have to continue keeping abreast with the developments and advances in the motion control systems industry, so that we may source for motion control components which we anticipate when assembled into motion control systems would meet the changes in demands and requirements by our customers. If we are unable to adapt to changes in our customers' demands or requirements, our business and financial performance may be adversely affected.

#### **We face competition from our competitors which may adversely affect our revenue and profitability**

The market in which we operate is competitive. Whilst we believe that the barriers to entry in our industry are high, we still face competition in the territories in which we operate from existing players in the market. In addition, many of our competitors may have extensive R&D capabilities. Our competitors may also have longer track records, wider product ranges or provide better after-sales support services. They may also have superior technical expertise for design and assembly processes or may operate on lower cost structures.

There is no assurance that we will be able to compete successfully against our competitors in the future. Failure by us to remain competitive would adversely affect our revenue and profitability. Please refer to the section entitled "Competition" in this Prospectus for further details of our competitors.

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## RISK FACTORS

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Our ability to retain customers and to attract new customers is important to the continued success of our Group. The loss of any of our major customers to our competitors or reduced orders from any of them without a corresponding increase in orders from other customers will have an adverse effect on our revenue and profitability.

**We may face product liability claims if our motion control and industrial computing systems are found to contain defects or are unfit for their intended purpose**

Most of the motion control and industrial computing systems that we design and assemble comprise components with a warranty period from our suppliers. In addition to this, we provide a back to back warranty on the suppliers' warranty. As such, in the event that the motion control and industrial computing systems that we sell are found to be unfit for their intended purpose or contain defects and users suffer loss, personal injury or death from the use of such motion control systems, we may be required to compensate our customers and/or the users for such loss, personal injury and death. Additionally, we may not be able to seek full or any indemnification or compensation from our suppliers as a result of any loss, personal injury or death caused by components (mainly as replacement parts) that we sell for third parties for which we are liable to compensate.

Further, we may also have to recall our motion control systems if there are allegations of our motion control systems being unsafe. In the event that we do infringe any product liability laws and legal proceedings are instituted against us, with or without merit, we may have to spend significant amount of resources to defend ourselves and this may have an adverse effect on our business and financial position. In addition, if the motion control systems which we sell contain components that are found to be defective, we may, face adverse publicity which may negatively affect our business and financial performance.

**We may face uncertainties and risks associated with the expansion of our business overseas**

We have subsidiaries, joint venture and associated companies located in countries and territories such as in the PRC, Hong Kong, Thailand, Malaysia and the Philippines. We also intend to penetrate into new overseas markets such as Indonesia, India and Vietnam by intensifying our sales, marketing and business development activities in these overseas markets. Such expansion initiatives involve numerous risks, including but not limited to, incurring unexpected or additional costs which will affect our results of operations. There can be no assurance that we will be successful in all of our expansion plans. In the event we fail to manage our expansion efficiently, our business, profitability and financial performance may be adversely affected. For more details on our expansion plans, please refer to the section entitled "Prospects and Future Plans" in this Prospectus.

**We may not be able to sustain and manage our profitability and this will affect our future prospects**

Since our inception, we have experienced rapid growth in our business. Our future operating results will depend on our ability to source sufficient working capital and manage our growth, including controlling costs, implementing and improving our operational and financial control systems, and managing human resources effectively, including hiring, training and managing our employees. In the event we are unable to manage our growth effectively or if any unexpected decline in the growth of our revenue occurs without a corresponding decline in the growth of our operating costs, our financial condition and operating results will be adversely affected.

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## RISK FACTORS

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### **The motion control and industrial computing systems we sell are exposed to declining selling prices**

The systems that we sell with lower functional capabilities may face a decline in their selling prices over time for several reasons which include, the introduction of newer, more advanced motion control and industrial computing systems, superior functional capabilities or more economical pricing from our competitors. In the event of a significant decline in the average selling prices of our motion control and industrial computing systems without a corresponding increase in sales volume and/or a corresponding decrease in costs and/or the introduction of more advanced motion control systems, our Group's revenue, profit margin and operating results will be adversely affected. Please refer to the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Prospectus for further details.

### **Our profitability and business operations are susceptible to the obsolescence of our inventory**

We keep an inventory ahead of receipt of orders from our customers to take advantage of bulk discounts and to make provision for urgent orders. We normally maintain an inventory of generic component parts meant for general application in various industries of between three to six months of our operating requirements.

Accordingly, any significant decline in the value of such inventory during the period may adversely affect our profit margins and profitability as we may have to lower our selling prices to secure new orders as our customers would expect a corresponding reduction in our selling prices. Furthermore, our profitability may be adversely affected if we are required to make provisions for our inventory due to obsolescence of component parts (we provide in full our inventory which are more than five years old) or where the cost of such inventory is higher than their respective market values. Please refer to the section entitled "Inventory Management" in this Prospectus for further details.

### **We depend on our business relationships with our suppliers**

Our business relationships with our suppliers comprise both formal and informal arrangements. Where possible, we have procured appointment letters or entered into distribution agreements to document such arrangements. Any major disruption or termination in our current relationship with our suppliers may have a material and adverse impact on our financial results. We do not have exclusive distribution rights for some of our products. Most of our agreements with our suppliers provide for termination by either party within a certain period of written notice. While we expect the current good relationship with our suppliers to continue for the foreseeable future there can be no assurance that these relationships will continue. We would also be adversely affected if our suppliers appoint additional distributors. Any loss of key suppliers or appointment of additional distributors for key components that we sell (as part of our motion control and industrial computing systems) will adversely affect our sales and profitability.

## **RISKS RELATING TO OUR GROUP**

### **We are exposed to credit risks of our customers**

Our trade receivables balance as at 31 December 2004 was approximately S\$8.24 million. This accounted for approximately 40.8% of our current asset balance. Therefore, our financial position and profitability are dependent on the creditworthiness of our customers. Generally, our credit terms extended to our customers vary from cash on delivery to 60 days (for certain customers with good credit worthiness, we grant credit of up to 90 days, on a case-by-case basis). Average debtors' turnover in FY2004 was approximately 72 days. Defaults in payment by our customers will adversely affect our profitability. We have provided allowance for doubtful debts of approximately S\$34,000 and written off bad debts of S\$130,000 in FY2004. We are unable to assure you that risks of default by our customers will not increase in the future. In such event, our profitability will be adversely affected. Please refer to the section entitled "Credit Control Policy" in this Prospectus for more details.

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## RISK FACTORS

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### **We are subject to foreign exchange risks**

Approximately 55.8%, 65.1% and 63.1% of our revenues in FY2002, FY2003 and FY2004 respectively were denominated in foreign currencies (consisting mainly of US dollars and Renminbi and other foreign currencies). During the same period, approximately 89.4%, 91.4% and 89.3% of our costs and expenses were denominated in foreign currencies (consisting mainly of US dollars, CHF, Renminbi, Euros, Japanese Yen and other foreign currencies) while the remainder were denominated mainly in Singapore dollars. However, our operating subsidiaries, joint venture and associated companies are located in the PRC, Hong Kong, Thailand, Malaysia and the Philippines. In remitting dividends to our Company, our subsidiaries, joint venture and associated companies will have to convert their reserves derived in Renminbi, Hong Kong dollars, Thai Baht, Malaysian ringgit and Philippines Peso into Singapore dollars. Therefore, our Company would be exposed to foreign exchange risks when our Company receives dividend from our overseas subsidiaries, joint venture and associated companies. Our foreign exchange losses for FY2002, FY2003 and FY2004 were approximately S\$89,000, S\$32,000 and S\$427,000 respectively. For further information relating to the foreign exchange loss in our FY2004, please refer to the section entitled “Foreign Exchange Exposure” in the Prospectus.

Although our Group currently does not have a formal hedging policy with respect to our foreign exchange exposure, we will continue to monitor our foreign exchange exposure in the future and will consider hedging any material foreign exchange exposure should such need arises.

In addition, as the reporting currency of our Company is Singapore dollars, the financial statements of our PRC, Hong Kong, Thailand and Malaysia subsidiaries, joint venture and associated companies are translated into Singapore dollars upon consolidation. Assets and liabilities of our subsidiaries, joint venture and associated companies are translated to Singapore dollars at the prevailing exchange rates in effect at the balance sheet date. All profit and loss accounts are translated using average exchange rates for the period. Exchange differences arising from translation are accounted for as currency realignment in the shareholders’ equity in the balance sheet. Please refer to the section entitled “Foreign Exchange Exposure” in this Prospectus for further details.

### **Our sales and profitability may be affected by delivery disruptions**

Delivery disruptions caused by various reasons, including weather conditions such as typhoons and floods, political turmoil, social unrest and strikes, would lead to delayed or lost deliveries or supplies. Delayed or lost deliveries may result in loss of revenue and consequently, our profitability may be adversely affected.

### **Some of our subsidiaries, joint venture and associated companies as well as our operations and significant assets are located in other jurisdictions**

Some of our subsidiaries, joint venture and associated companies as well as our operations and significant assets are located in the PRC, Hong Kong, Thailand, Malaysia and the Philippines. Our subsidiaries, joint venture and associated companies are therefore subject to the laws and regulations in the relevant jurisdiction. The Companies Act may provide shareholders with certain rights and protection of which there may be no corresponding or similar provisions under laws of the relevant jurisdiction. As such, our Company may or may not be accorded the same level of shareholder rights and protection that would be accorded under the Companies Act in respect of these subsidiaries, joint venture and associated companies. In addition, some of our Directors and Executive Officers are non-residents of Singapore, and accordingly the assets of these persons are located outside Singapore. As a result, it could be difficult for investors to effect service of process in Singapore, or to enforce a judgment obtained in Singapore against any of our Directors or Executive Officers who is a non-resident of Singapore.

### **Failure to retain the services of our Executive Directors and Executive Officers will adversely affect our operations and financial performance**

Our success to date has largely been due to the contributions from our Managing Director and President, Teo Cher Koon and our Executive Director and Senior Vice President – PRC Operations, Kong Deyang. They have been instrumental in charting our growth and success, our overall strategies and new business initiatives. We believe that our continued success is dependent to a very large extent on our ability to retain the services of Teo Cher Koon and Kong Deyang.

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## RISK FACTORS

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Our key management comprises of our other Executive Officers namely Cheng Hock Kiang, Chow Ka Man, Han Moo Juan, Lau Choon Guan, Lim Bee Teng, Sim Leong Seang, Udom Warasatian and Wong Kwok Whye Peter and they are instrumental in the execution of our corporate strategies.

The loss of any of these key personnel, especially Teo Cher Koon and Kong Deyang, without suitable replacements will adversely affect our operations and hence, our revenue and profits. Please refer to the section entitled “Directors, Management and Staff” in this Prospectus for further details on our management.

### **Some of our leases are not in compliance with the relevant regulations**

We have entered into lease agreements in respect of properties in the PRC. Please refer to the section entitled “Properties and Fixed Assets” in this Prospectus for details of the properties. Some of the lease agreements in respect of these properties have not been registered with the relevant lease registration authorities. The failure to register a lease agreement with the relevant lease registration authorities will not affect the validity of the lease agreement but the lease agreement will not be good against a third party if this third party seeks to enforce its registered lease agreements in respect of the property.

In the event that the abovementioned lease agreements are deemed to be invalid or not good against the claims of third parties, we would have to relocate our operations from these properties to alternative sites nearby. Our Directors are of the view that the relocation of any such premise would take approximately 4 weeks and the estimated cost of one such relocation is approximately S\$10,000.

## **RISKS RELATING TO THE COUNTRIES IN WHICH WE OPERATE**

### **We are subject to various tax regimes**

We have subsidiaries, joint venture and associated companies located in the PRC, Hong Kong, Thailand, Malaysia and the Philippines. Further, we may also set up offices in other jurisdictions in the future. As a result, we are and will be subject to the tax regimes in these countries.

Currently, while we are not aware of any change in our tax position, any change in tax laws and regulations or the interpretation or application thereof in the countries which we operate may adversely affect our profitability and tax liabilities. In the event that any tax disputes should arise, the profitability of our Group may be adversely affected.

### **The outbreak of the severe acute respiratory syndrome (SARS) virus, avian flu and/or other epidemic, if uncontrolled, could affect our business, operations and financial performance**

We have subsidiaries, joint venture and associated companies located in the PRC, Hong Kong, Thailand, Malaysia and the Philippines. Although our business operations have not been substantially affected by the outbreak of SARS or the avian flu in the past, there is no assurance that another outbreak of the SARS virus, avian flu and/or other epidemics in the PRC, Hong Kong or Thailand, or any other countries in which we operate, will not have an adverse impact on our business operations or financial performance. In addition, if any of our employees or employees of our associates or joint venture are affected by SARS, avian flu and/or other communicable disease or if our employees or employees of our associates or joint venture are required to be kept under quarantine, our design and assembly activities may be adversely affected and this could in turn adversely affect our business and financial performance.

#### **(a) Risks relating to our operations in the PRC**

##### **Our acquisition of 15% in the registered capital in Maxon Motor (Suzhou) Co., Ltd.**

On 21 August 2002, the Suzhou Foreign Trade and Economic Cooperation Bureau (formerly known as Suzhou Foreign Economic and Trade Commission) approved the acquisition of 15% equity interest in Maxon Motor (Suzhou) Co., Ltd (“Maxon Suzhou”) by Servo Dynamics acquired from Suzhou Optical Instruments Factory, CNIC (“CNIC Suzhou”). CNIC Suzhou was in turn in May 2005 acquired by a third party unrelated to our Group has obtained approval from the appropriate authorities for dissolution and is currently in the process of being dissolved. Under



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## RISK FACTORS

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PRC laws, CNIC Suzhou was required to conduct an asset appraisal on the transferred equity interest and to file the report of the asset appraisal with the competent PRC authority but this was not complied with. The failure by CNIC Suzhou to attend to this requirement may cause the acquisition of the 15% stake in Maxon Suzhou to be rescinded or declared null and void by the state asset administrative authority.

Notwithstanding the above, PRC counsel has opined that although no asset appraisal has been conducted on the 15% equity interest in Maxon Suzhou transferred to Servo Dynamics, the risk that the sale and purchase of such 15% interest in Maxon Suzhou being rescinded or declared by the state asset administration authority as null and void is remote, for the reasons as follows:-

- (i) no creditors of the CNIC Suzhou, including its acquiror or any other party has challenged the validity of the sale for the past three years or has made any allegations that the acquisition was improper;
- (ii) Servo Dynamics has entered into the acquisition in good faith and has already paid the agreed purchase price in full;
- (iii) the transfer had been approved by China Baoyuan Industry and Trade Company, the parent company of CNIC Suzhou, and the Suzhou Foreign Economic and Trade Commission; and
- (iv) CNIC Suzhou has been granted the approval to be dissolved and is in the process of doing so.

### **Political relations between the PRC and Taiwan may adversely affect our operations and financial results**

The PRC government has been seeking peaceful re-unification with Taiwan as the PRC government believes that the “one country, two systems” formula which has been implemented for Hong Kong and Macau is the solution in relation to Taiwan. The PRC had however indicated that it would not rule out the use of military force if Taiwan were to declare independence. For FY2004, approximately 35.2% of our revenue was derived from our customers located in the North Asia region (including but not limited to Greater China).

There is no assurance that the political situation between the PRC and Taiwan will not worsen or that the PRC government will continue to uphold policies that will protect the interests of Taiwanese-linked investments in the PRC or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC’s political and economic climate. A change in policies could affect Taiwanese-linked investments in the PRC, in which event our operations in Suzhou, Beijing, Shenzhen, Shanghai and Chongqing and our financial results would be materially and adversely affected.

### **Our ability to receive dividends and other payments from our subsidiaries, joint venture and associated companies may be restricted by commercial, statutory and legal restrictions**

The ability of our subsidiaries, joint venture and associated companies to pay dividends or make other distributions to us may be restricted by, among other things, the availability of funds, the terms of various credit arrangements entered into by such subsidiaries, joint venture and associated companies, as well as, statutory and other legal restrictions. There is no assurance that the regulations in the countries which our subsidiaries, joint venture and associated companies are located will not be changed to our disadvantage and that the ability of our subsidiaries, joint venture and associated companies to distribute dividends to us will not be adversely affected. Please refer to the risk factor “We are subject to foreign exchange risks” in this section and the section entitled “Dividend Policy” in this Prospectus for more details.

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## RISK FACTORS

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### **Economic conditions in the PRC are subject to uncertainties that may arise from changes in government policies and social conditions**

Since 1978, the PRC government has undergone various reforms in its economic systems. Such reforms have resulted in economic growth for the PRC in the last two decades. However, many of the reforms are unprecedented or experimental and are expected to be refined and modified from time to time. Other political, economic and social factors may also lead to further readjustment of the reform measures. This readjustment process may consequently have a material adverse impact on our operations in the PRC or on our financial performance. Our results and financial conditions may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in the policies of the PRC government or changes in laws, regulations or the interpretation or implementation thereof.

### **Our business may be adversely affected by the introduction of new laws or changes to existing laws by the PRC government**

Our business and operations in the PRC are governed by the legal system of the PRC. The PRC legal system is a codified system with written laws, regulations, circulars, administrative directives and internal guidelines. The PRC government is still in the process of developing its legal system, so as to meet the needs of investors and to encourage foreign investment. As the PRC economy is undergoing development generally at a faster pace than its legal system, some degree of uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Some of the laws and regulations, and the interpretation, implementation and enforcement thereof, are still at an experimental stage and are therefore subject to policy changes.

Further, precedents on the interpretation, implementation and enforcement of the PRC laws and regulations are limited, and court decisions in the PRC do not have any binding effect on lower courts. Accordingly, the outcome of dispute resolutions may not be as consistent or predictable as in the other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a court of another jurisdiction. Further details on PRC laws and regulations can be found in Appendix C of this Prospectus.

### **PRC foreign exchange control may limit our ability to utilise our revenue effectively**

In the PRC, the State Administration for Foreign Exchange ("SAFE") regulates the conversion of RMB into foreign currencies, and *vice versa*. Currently, Foreign Investment Enterprises ("FIEs") are required to apply to SAFE for "Foreign Exchange Registration Certificates for FIEs". With such registration certificates (which are required to be renewed annually), FIEs are allowed to open foreign currency accounts including "basic account" and "capital account". Currency conversion within the scope of the "basic account" (e.g. transactions of revenue nature, etc.) can be effected without requiring the approval of the SAFE. However, currency conversion within the scope of the "capital account" (e.g. capital transactions such as direct investments, loans, etc.) still requires SAFE's approval.

In addition, on 24 January 2005, SAFE promulgated the Circular of the State Administration of Foreign Exchange Concerning Relevant Issues on Improving Foreign Exchange Administration for Merger and Acquisitions by Foreign Entities ( "国家外汇管理局关于完善外资并购外汇管理有关问题的通知" )(the "Circular"). According to the Circular, PRC domestic residents shall go through certain procedures for obtaining approvals from and shall make filings with, the SAFE with respect to their overseas investments for directly or indirectly setting up, or controlling, overseas entities. The Circular also provides that, without SAFE verification, PRC domestic residents shall not swap for shares or other properties of overseas entities, by using domestic assets or shares owned by them within the PRC. While reviewing applications for foreign exchange registration of FIEs that are to be set up through mergers and acquisitions by foreign entities, the SAFE shall focus on reviewing whether the foreign entities are set up or controlled by PRC domestic residents and whether the acquiring entities share the same management team with the target enterprise. With



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## RISK FACTORS

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respect to acquired FIEs which have made their foreign exchange registrations prior to 24 January 2005, the SAFE shall monitor such matters as capital infusion verification, foreign exchange registrations for generating foreign exchange as a result of the transfer of shares, shareholder loans, profit remittance offshore, or reinvestment of profits.

While we currently have no reason to believe that the Circular will have a material adverse impact on our corporate restructuring and this public offering. However, the Circular is relatively new and ambiguous in terms of its requirements and detailed procedures. Thus, we cannot assure you that SAFE will not continue to issue new rules and regulations and further interpretations of the Circular that will strengthen the control of foreign exchange. As our subsidiaries in the PRC generates a significant proportion of our revenue and these revenues are denominated in mainly RMB, any future foreign exchange policy changes may limit our ability to repatriate such revenues for the distribution of dividends to our shareholders or for funding our other business activities outside the PRC.

### **(b) Risks relating to our operations in Malaysia**

#### **We are subject to the Foreign Investment Committee (“FIC”) guidelines in Malaysia**

The Malaysian FIC regulates both foreign and local equity participation in Malaysian investments and companies. The FIC has set out certain guidelines governing the acquisition of assets or interests, mergers and takeovers of companies to ensure Malaysian participation in ownership and control, thereby deriving economic benefits to Malaysia. Amongst others, the FIC’s guidelines provide that FIC’s approval is required for:-

- any proposed acquisition of interest in a local company or business in Malaysia which is RM10 million or more in value, by local or foreign interests;
- any proposed acquisition of assets or any interest, mergers or take-overs of companies and business in Malaysia by any means, which will result in ownership or control passing to foreign interests; and
- any proposed acquisition of 15% or more of the voting power by any one foreign interest or associated group, or by foreign interests in the aggregate of 30% or more of the voting power of a Malaysian company and business.

Despite the above, we have yet to apply for the FIC’s approval for acquiring and holding 75% and 50% of the issued and paid-up share capital of SD Malaysia and Servo-matic respectively. The FIC guidelines are executive policies and there are no penalties for non-compliance of these guidelines. However, non-compliance of the FIC’s guidelines may have practical consequences as application for approvals or licences to certain regulatory bodies in Malaysia may require the prior approval of the FIC. If FIC’s approval is sought, FIC may impose the equity condition that 30% of the issued and paid-up capital in SD Malaysia or Servo-matic must be held by Bumiputras. Accordingly, in such an event, the revenue and profit contributions from SD Malaysia and Servo-matic to our Group may be reduced as we may have to dilute our shareholdings in SD Malaysia and Servo-matic to comply with these guidelines. Further, a local company owned by foreign interests with a paid-up capital of less than RM250,000 will be required to increase the share capital to at least RM250,000 within six months from the date of FIC’s approval. The revenue of SD Malaysia and Servo-matic since their inception up to the Latest Practicable Date was insignificant.

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## RISK FACTORS

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### **RISKS RELATING TO OWNERSHIP OF OUR SHARES**

**Our Directors and/or Substantial Shareholder will retain approximately 68.91% shareholding in the share capital in our Company immediately after the Invitation. Such control will allow them to influence the outcome of matters submitted to shareholders for approval**

Upon completion of the Invitation, our present Directors and Substantial Shareholder will beneficially own in aggregate approximately 68.91% of the post-Invitation issued and paid-up share capital of our Company. As a result, these persons, if they act together, will be able to exercise significant influence over all matters requiring Shareholders' approval, including the election of Directors and approval of significant corporate transactions, and will have veto power with respect to any Shareholders' action or approval requiring a majority vote. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Company that may not benefit our Shareholders.

**Investors in our Shares will face immediate and substantial dilution in the NTA per Share and may experience future dilution**

Our Invitation Price of 29.00 cents is substantially higher than our NTA per Share of 8.55 cents (adjusted for the Restructuring Exercise, the Dividend Payment and the net proceeds from the Invitation) as at 31 December 2004. Thus, there is an immediate and substantial dilution in the NTA per share of investors who subscribe and/or purchase our Shares pursuant to the Invitation. If we were liquidated immediately following the Invitation, each investor subscribing and/or purchasing our Invitation Shares would receive less than the price paid for those Shares. Please refer to the section entitled "Dilution" in this Prospectus for more information.

**Additional funds raised through issuance of new Shares for our future growth will dilute Shareholders' equity interests**

We may in the future expand our capabilities and business through acquisitions and/or joint ventures and/or strategic partnership with parties who can add value to our business. We may require additional equity funding after the Invitation and our Shareholders will face dilution of their shareholdings should we issue new Shares to finance future acquisitions and/or joint ventures and/or strategic partnerships.

**Future sales of Shares could adversely affect our Share price**

Our Directors and Substantial Shareholder collectively hold approximately 68.91% of our entire issued share capital immediately after the Invitation. Although these Shares are subject to moratorium, any substantial sale of our Shares over a short period after the expiry of the applicable moratorium period by such Shareholders could cause our Share price to fall. Please refer to the section entitled "Moratorium" in this Prospectus for further details.

**Our Share price may be volatile, which could result in substantial losses for investors purchasing Shares in this Invitation**

The market price of our Shares may be highly volatile and could be subject to wide fluctuations in response to fluctuations in our financial performance and perceptions about our financial position. These fluctuations may be exaggerated if the trading volume of our Shares is low. In addition, the market price of our Shares may also rise and fall in response to:-

- the success or failure in implementing our business and growth strategies;
- announcements of new contracts or contract cancellations;
- announcements of technological innovations and/or new products and/or services offered by us and/or our competitor;
- gain or loss of an important business relationship;
- changes in analysts' recommendation or perceptions;

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## RISK FACTORS

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- changes in general economic conditions or stock market sentiments or other events or factors;
- changes in share prices of companies with similar businesses to our Company that are listed in Singapore; and
- broad stock market fluctuations.

**There has been no prior market for our Shares and this offering may not result in an active or liquid market for our Shares**

There has been no public market for our Shares prior to this Invitation and accordingly, there can be no assurance that an active public market for our Shares will develop or be sustained after the Invitation. The Invitation Price has been determined by us with the Manager, the Placement Agent and Underwriter, based on several factors and may not be indicative of the market price at which our Shares will trade after the Invitation.

Investors may not be able to resell their Shares at or above the Invitation Price. Volatility in the trading price of our Shares may be caused by factors outside our control and may be unrelated or disproportionate to our operating results.

**We may require additional financing in the future**

We may need to obtain additional debt or equity to fund future expansion plans, acquisitions or capital expenditure. We are continuously evaluating possible acquisition opportunities, which may require more funds if such acquisitions are carried out on a large-scale basis. Accordingly, we are unable to predict the amount of funds required in the near future. The issue of additional equity may result in dilution to the holders of our Shares. In addition, additional debt financing may include conditions that would restrict our freedom to operate our business, such as conditions that:-

- limit our ability to pay dividends or require us to seek consents for the payment of dividends;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a portion of our cash flow from operations to payments on our debt, thereby reducing the availability of our cash flow to fund capital expenditures, working capital and other general corporate purposes; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

In addition, there is no assurance that we will be able to obtain any additional financing or obtain such additional financing on terms acceptable to us.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the Proforma Group Financial Information as set out in Appendix D of this Prospectus. This discussion may contain forward looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward looking statements as a result of certain factors, including, but not limited to those set forth under the section on "Risk Factors" and elsewhere in this Prospectus.

### PROFORMA GROUP PROFIT AND LOSS STATEMENTS

	<— Year ended 31 December —>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>S\$'000</b>	<b>S\$'000</b>	<b>S\$'000</b>
<b>Revenue</b>	21,298	39,003	53,458
<b>Cost of sales</b>	(14,848)	(28,729)	(38,624)
<b>Gross profit</b>	6,450	10,274	14,834
Other operating income	422	354	512
Distribution costs	(818)	(1,110)	(1,286)
Administrative expenses	(3,967)	(5,394)	(6,042)
Other operating expenses	(343)	(470)	(1,012)
<b>Profit from operations</b>	1,744	3,654	7,006
Finance costs	(78)	(92)	(93)
Share of results of associates	113	181	224
<b>Profit before income tax</b>	1,779	3,743	7,137
Income tax expense	(260)	(687)	(1,267)
<b>Profit after income tax</b>	1,519	3,056	5,870
Minority interests	(6)	42	(89)
<b>Net profit for the year</b>	1,513	3,098	5,781
Earnings per share (cents)*	1.15	2.35	4.39

\* Earnings per share for the period under review has been computed based on pre-invitation share capital of 131,798,700 ordinary shares of \$0.05 each.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## PROFORMA GROUP BALANCE SHEET

	As at 31 December 2004
	S\$'000
<b>ASSETS</b>	
<b>Current assets:</b>	
Cash and bank balances	5,725
Trade receivables <sup>(1)</sup>	8,239
Other receivables and prepayments	615
Inventories <sup>(2)</sup>	5,606
Total current assets	20,185
<b>Non-current assets:</b>	
Investment in associates	1,080
Properties, plant and equipment	4,094
Investment properties	667
Total non-current assets	5,841
<b>Total assets</b>	<b>26,026</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	
<b>Current liabilities:</b>	
Bank loans	1,124
Trust receipts	787
Trade payables <sup>(3)</sup>	4,858
Other payables	1,639
Income tax payable	1,825
Current portion of finance leases	35
Total current liabilities	10,268
<b>Non-current liabilities:</b>	
Long-term loans	1,237
Finance lease	49
Deferred tax liabilities	22
Total non-current liabilities	1,308
<b>Minority interest</b>	213
<b>Proforma shareholders' equity</b>	14,237
<b>Total liabilities and proforma shareholders' equity</b>	<b>26,026</b>

**Notes:-**

- (1) As at the Latest Practicable Date, approximately S\$8.02 million (representing 97.3%) of the trade receivables balance as of 31 December 2004 has been collected.
- (2) As at the Latest Practicable Date, all the inventory of S\$5.61 million as of 31 December 2004 has been recognised as sales.
- (3) As at 30 September 2005, approximately S\$4.80 million (representing 98.8%) of the trade payables balance as of 31 December 2004 has been paid.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

## OVERVIEW

We derive our revenue from our two main business divisions, namely:-

- Motion Control Division; and
- Industrial Computing Division.

### Motion Control Division

Our Motion Control Division is an integrated solutions provider that specialises in the design, assembly, sale and installation of motion control systems commissioned by our mainly MNC and SME customers for their equipment. We work closely with our customers to design and assemble functional modules for semiconductor manufacturing equipment (such as SMT machines, robotic arms, and wafer processing equipment), general automation equipment (such as robotic arms and X-ray machines), hard disk manufacturing equipment (such as disk load/disk unload handlers and disk drive testing equipment) and general manufacturing equipment (such as robotic arms, industrial robots and handlers). Revenue from our Motion Control Division accounted for approximately 85.0%, 87.6% and 87.2% of our total revenue in FY2002, FY2003 and FY2004, respectively.

We derive our revenue from the design, assembly, sale and installation of our motion control systems.

The sales of our motion control systems are usually done through our team of sales engineers, supported by our sales coordinators, whom are trained to respond to our customers' needs professionally. Our sales engineers, together with our technical engineers, will explore the most appropriate and complete solutions for our customers, helping to save customers' time and cost. By providing such solutions, our customers would be able to enjoy system compatibility and enhanced performances from a single supplier as compared to the alternative of having to source for various component parts from multiple suppliers themselves. We also provide value-added services such as quality checks and after-sales support to ensure the optimal performance of the motion control systems we supply.

For the past three financial years, our Motion Control Division's revenue can be segmented on an industry basis as follows:

<b>Motion Control Division percentage of revenue by customers' industry</b>	<b>FY2002 S\$'000</b>	<b>%</b>	<b>FY2003 S\$'000</b>	<b>%</b>	<b>FY2004 S\$'000</b>	<b>%</b>
Semiconductor	8,540	47.2	18,423	53.9	22,541	48.4
General automation	5,127	28.3	5,830	17.1	14,146	30.4
Manufacturing	3,190	17.6	5,918	17.3	5,694	12.2
Hard Disk	1,241	6.9	4,001	11.7	4,210	9.0
Total	18,098	100.0	34,172	100.0	46,591	100.0

Semiconductor:

Our customers in the semiconductor industry are mainly engaged in the design and manufacture of automated equipment (e.g. SMT machines, robotic arms, wafer-processing equipment, lead conditioning systems, integrated vision inspection systems, packing systems) and parts used in the semiconductor manufacturing process.

General automation:

Our customers in the general automation industry include players in the medical industry (e.g. producers of X-Ray radiographic machines), oil and gas industry (e.g. producers of equipment used in oil and gas exploration and extraction) and the food processing industry (e.g. producers of drink cartons).

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Manufacturing:

Our customers in the manufacturing industry include manufacturers of gear boxes, manufacturers of gaming machines and manufacturers of aluminium shearing machines.

### Hard disk:

Our customers in the hard disk industry are mainly hard disk manufacturers and producers of equipment used in the hard disk manufacturing industry.

### **Industrial Computing Division**

We are also an integrated solutions provider that specialises in the design, customisation and sale of industrial computers to our customers. Revenue from our Industrial Computing Division accounted for approximately 15.0%, 12.4% and 12.8% of our total revenue in FY2002, FY2003 and FY2004, respectively. Moving forward, our Directors expect the percentage contribution of revenue from our Industrial Computing Division to remain relatively stable.

Our products and services in our Industrial Computing Division can be categorised into the following segments:-

#### ***Industrial Computers***

We customise, assemble and sell industrial computers using various components and parts that we purchase from our suppliers. With this wide range of components from different manufacturers, we are able to assemble industrial computers according to our customers' requirements and budget. Our technical team designs the industrial computers, configures the hardware, installs the software, test and diagnose the industrial computers to ensure compatibility with our customers existing control systems.

Revenue from the design, assembly and sale of industrial computers contributed approximately 68.4%, 83.0% and 82.6% to the revenue of our Industrial Computing Division in FY2002, FY2003 and FY2004, respectively.

#### ***Distribution of 'Wonderware' software program***

We distribute the 'Wonderware' software program, a fully integrated suite of software for industrial automation. This component-based manufacturing management information system provides our customers with the software to run various automation tools. It also features software modules that are suitable for use in continuous, discrete and batch manufacturing environments. Its components can be used to collect and manage production information, visualise and analyse the factory automation process, track and improve production operations, control machines and processes and manages batches.

Revenue from distribution of 'Wonderware' software program contributed approximately 29.9%, 13.9% and 14.0% to the revenue of our Industrial Computing Division in FY2002, FY2003 and FY2004, respectively.

#### ***System Integration Services***

We are also engaged in the provision of system integration services for industrial computing system. Our customers in this segment are system integrators who outsource certain system integration services projects to us. We have competitive advantages in this business as we possess valuable hands-on experiences and technical know-how of systems integration for industrial computing systems. We provide training, consultation, feasibility studies, supply and installation of the necessary hardware and software to our end-users, as well as advice on software development and integration. This enables us to provide a complete solution package to meet the end-users' functional requirements.

Revenue from our system integration services accounted for approximately 1.7%, 3.1% and 3.4% of the contribution to our Industrial Computing Division revenue in FY2002, FY2003 and FY2004, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

For the past three financial years, our Industrial Computing Division's revenue can be segmented on an industry basis as follows:

<b>Industrial Computing Division percentage of revenue by customers' industry</b>	<b>FY2002 S\$'000</b>	<b>%</b>	<b>FY2003 S\$'000</b>	<b>%</b>	<b>FY2004 S\$'000</b>	<b>%</b>
Semiconductor	440	13.8	1,453	30.1	2,383	34.7
General automation	1,744	54.5	1,894	39.2	2,573	37.5
Manufacturing	398	12.4	242	5.0	153	2.2
Hard Disk	618	19.3	1,242	25.7	1,758	25.6
Total	3,200	100	4,831	100	6,867	100

For our Motion Control Division, the motion control systems for our customers based overseas are delivered directly to them from our subsidiaries in the respective countries or from our workshop in Singapore. For our Industrial Computing Division, most of our customers are located in Singapore and the industrial computers are delivered directly to them from our workshop in Singapore.

We sell our motion control systems and industrial computing systems mainly to customers in South Asia (including but not limited to Singapore, Malaysia and Thailand), North Asia (including but not limited to the PRC and Hong Kong) and other countries (including, but not limited to United Kingdom, United States, Australia and India). Sales to South Asia had been a major contributor to our revenue and accounted for approximately 75.5%, 71.1% and 64.3% of our total revenue in FY2002, FY2003 and FY2004 respectively. Sales to South Asia include 59.1%, 59.5% and 50.5% to Singapore, 7.1%, 5.8% and 5.3% to Thailand, 8.3%, 4.6% and 7.7% to Malaysia and 1.0%, 1.2% and 0.8% to other South Asian countries in FY2002, FY2003 and FY2004 respectively. Sales to North Asia (including but not limited to the PRC and Hong Kong) accounted for approximately 23.9%, 28.6% and 35.2% of our total revenue for FY2002, FY2003 and FY2004 respectively. The percentage contribution of revenue from customers in North Asia has increased from FY2002 to FY2004 mainly due to the increase in sales from our Motion Control Division to customers in the PRC and Hong Kong. Moving forward, our Directors expect the percentage contribution of revenue from the PRC and Hong Kong to further increase, vis-à-vis that from South Asia and other countries. Sales to the other countries accounted for approximately 0.6%, 0.3% and 0.5% of our total revenue in FY2002, FY2003 and FY2004 respectively.

Our selling prices vary according to various factors including market demand, cost of component parts, type of motion control systems and industrial computing systems that we offer and competition from our major competitors. Market demand is affected by both general economic conditions and industry specific conditions. Adverse economic conditions would most likely cause a general decrease in demand of our motion control systems and industrial computing systems from our customers. A downturn in specific industries would also cause a decrease in both a demand of our motion control systems and industrial computing systems and a decrease in our selling prices. An increase in price of our components would generally lead to an increase in our selling prices. However, we may or may not be able to pass onto our customers the increase in price of our component parts. The type of motion control systems and industrial computing systems we assemble and sell would affect our selling prices. For example, motion control systems and industrial computing systems with new or improved functions or of greater complexity would command higher prices. Increase in competition from our major competitors will have downward pressure on our selling prices.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Seasonality

Based on our past experiences, our business will generally peak in the second half of our financial year as our customers from North Asia (which contributed approximately 23.9%, 28.6% and 35.2% of our Group's revenue in FY2002, FY2003 and FY2004, respectively) tend to place their orders in the second half of the financial year. Our revenue recorded in the second half (as compared to the corresponding first half) was higher by approximately 23.1% and 53.1% in FY2002 and FY2003, respectively. In FY2004, this was not the case as our first half performance was approximately 13.5% higher than our second half and this was mainly due to an upturn in the semiconductor industry in the second half of FY2003 that carried on until the first half of FY2004.

### Cost of Sales

Cost of sales accounted for approximately 69.7%, 73.6% and 72.2% of total revenue in FY2002, FY2003 and FY2004, respectively.

For our Motion Control Division, cost of sales comprises entirely of cost of component parts sourced from unrelated third-party suppliers used in our assembly of our motion control systems. These component parts comprise mainly various kinds of motors and drives, bearings and gears, and other various parts and amounted to approximately S\$9.29 million, S\$20.97 million and S\$23.82 million and accounted for 74.4%, 83.8% and 71.6% of the total cost of sales of Motion Control Division in FY2002, FY2003 and FY2004 respectively. Motors (for example, servo motors), drives (for example, servo drives and stepper drives) and other various parts such as controllers and electronic components, amounted to approximately S\$6.13 million, S\$13.76 million and S\$15.90 million and accounted for 49.1%, 55.0% and 47.8% of total cost of sales of our Motion Control Division in FY2002, FY2003 and FY2004, respectively. Bearings (mainly linear bearings), gears (mainly precision gearboxes) and other various components amounted to approximately S\$2.81 million, S\$6.58 million and S\$6.79 million and accounted for 22.5%, 26.3% and 20.4% of total cost of sales of our Motion Control Division in FY2002, FY2003 and FY2004, respectively.

For our Industrial Computing Division, cost of sales consists mainly of cost of hardware parts and software licenses. Hardware (including computer peripherals) amounted to approximately S\$1.66 million, S\$3.21 million and S\$4.85 million and accounted for 70.3%, 86.5% and 90.6% of total cost of sales of the Industrial Computing Division in FY2002, FY2003 and FY2004, respectively. The increase in the percentage contribution of cost of hardware parts to the total cost of sales of the Industrial Computing Division was mainly due to higher sales of hardware, which carries a higher cost. Software licenses (mainly for the licensing of the "Wonderware" program) were for the software to operate the industrial computers that we customise and assemble for our customers and amounted to approximately S\$696,000, S\$500,000 and S\$504,000 and accounted for 29.7%, 13.5% and 9.3% of total cost of sales of our Industrial Computing Division in FY2002, FY2003 and FY2004, respectively. Our subsidiary, Servo Dynamics, has on or about 29 September 2003 entered into a Wonderware Distribution Agreement with Invensys Systems, Inc to distribute the Wonderware computer software programs in Singapore for a period of 3 months from 31 March 2004, which is then automatically renewed for successive 3-month renewal periods unless determined by notice at the end of any 3-month renewal period. As at the Latest Practicable Date, the Wonderware Distribution Agreement is a valid and subsisting agreement and we have neither given, nor received any notice for its termination.

### Other Operating Income

Our other operating income consist mainly of service income, management fees, other income (including, but not limited to reimbursements from customers for miscellaneous expenses incurred), rental income, consultancy fees and compensation received from a customer.

Service income comprise mainly of services rendered to our customers for repair and servicing of motion control systems, training, on-site trouble-shooting, installation of software and general maintenance services. Service income amounted to approximately S\$222,000, S\$196,000 and S\$240,000 and accounted for 52.6%, 55.4% and 46.9% of other operating income in FY2002, FY2003 and FY2004, respectively.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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Management fees refer to fees charged to our associated company, Nyquist, and to fees charged to a related party, Dirak Asia. We charge Nyquist (of which we have 25% shareholding interest), for management services (mainly accounting, technical support, sales support and general administration) provided by our subsidiary, Leaptron. Nyquist is engaged in the marketing, distribution and provision of technical support for robot-control systems. The management fees are calculated based on the allocation of staff to Nyquist (for the provision of the above-said services) and amounted to approximately S\$72,000 (20.3%) and S\$66,000 (12.9%) of other operating income in FY2003 and FY2004, respectively. There were no management fees in FY2002 as Nyquist was incorporated only in FY2003. Moving forward, the provision of management services by Leaptron to Nyquist is expected to continue. We charged Dirak Asia (a company of which our Managing Director and President, Teo Cher Koon, is a director of and holds a 50% shareholding interest) for management services (mainly accounting and general administration) provided by our subsidiary, Servo Dynamics. Dirak Asia is engaged in the manufacturing of machinery electronic locks and other related hardware accessories. The management fees are calculated based on the allocation of staff to Dirak Asia (for the provision of the above-said services) and amounted to approximately S\$12,000 (2.8%), S\$12,000 (3.4%) and S\$12,000 (2.3%) of other operating income in FY2002, FY2003 and FY2004, respectively. The provision of management services by Servo Dynamics to Dirak Asia will cease as at 30 June 2005 (please refer to the section entitled "Interested Persons Transactions" in this Prospectus for more details).

Other income comprise mainly of reimbursements from customers for miscellaneous expenses incurred (for example, out-of-pocket expenses). Other income amounted to approximately S\$35,000, S\$27,000 and S\$37,000 and accounted for 8.3%, 7.6% and 7.2% of other operating income in FY2002, FY2003 and FY2004, respectively.

Rental income comprise mainly of rental from leasing of our office cum warehouse premises in Genting Lane, Singapore, to unrelated third parties. The leases are on an annual basis and amounted to approximately S\$33,000 (7.8%), S\$27,000 (7.6%) and S\$33,000 (6.4%) of other operating income in FY2002, FY2003 and FY2004, respectively.

Consultancy fees refers to technical consultancy services rendered to Resem Technologies. Consultancy fees amounted to approximately S\$88,000 or 20.9% of other operating income in FY2002 (there were no consultancy fees in FY2003 and FY2004). Compensation received from customer refers to a forfeited deposit (due to a customer failing to complete the purchase subsequent to paying the deposit) and amounted to approximately S\$112,000 or 21.9% of other operating income in FY2004 (there were no such compensation in FY2002 and FY2003). Please refer to the section entitled "Interested Persons Transactions" in this Prospectus for more details.

### **Distribution Costs**

Distribution costs comprises primarily of transport-related expenses and advertising and promotion expenses.

Transport-related expenses consist mainly of freight charges, transportation costs, insurance premiums (transport-related) and customs charges for the import of motion control components and industrial computing components and for the delivery of our motion control systems and industrial computing systems to our customers. These are usually delivered to our customers via air freight. Transport-related expenses amounted to approximately S\$654,000, S\$934,000 and S\$1.12 million and accounted for approximately 80.0%, 84.1% and 87.1% of distribution costs in FY2002, FY2003 and FY2004, respectively.

Advertising and promotion expenses consist mainly of costs incurred for advertising on major publications and participation in trade fairs (please refer to the section entitled "Marketing, Sales and Promotion" in this Prospectus for details). Advertising and promotion expenses amounted to approximately S\$164,000, S\$176,000 and S\$166,000 and accounted for 20.0%, 15.9% and 12.9% of distribution costs in FY2002, FY2003 and FY2004, respectively.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Administrative Expenses

Administrative expense comprise mainly of payroll related expenses, office-related expenses, travelling expenses, consultancy and professional fees and rental.

Payroll related expenses comprise mainly of salaries (including bonuses and directors' remuneration), mandatory employer defined contribution and directors' fees. Salaries incurred were approximately S\$2.60 million, S\$3.61 million and S\$4.07 million and accounted for approximately 65.5%, 66.9% and 67.4% of administrative expenses in FY2002, FY2003 and FY2004, respectively. Our mandatory employer defined contribution incurred were approximately S\$310,000, S\$461,000 and S\$371,000 and accounted for 7.7%, 8.5% and 6.1% of administrative expenses in FY2002, FY2003 and FY2004, respectively. Directors' fees incurred were approximately S\$90,000 and S\$2,000 and accounted for 1.7% and 0.03% of administrative expenses in FY2003 and FY2004, respectively (there were no directors' fees declared in FY2002).

Office-related expenses consist primarily of printing expenses, office stationery and utilities. Office-related expenses amounted to approximately S\$254,000, S\$286,000 and S\$281,000 and accounted for 6.4%, 5.3% and 4.6% of administrative expenses in FY2002, FY2003 and FY2004, respectively.

Travelling expenses consist mainly of expenses incurred during domestic and international travel undertaken by our staff (mainly for our sales staff). Travelling expense amounted to approximately S\$209,000, S\$280,000 and S\$323,000 and accounted for 5.3%, 5.2% and 5.3% of administrative expenses in FY2002, FY2003 and FY2004, respectively.

Consultancy and professional fees comprise mainly of fees paid to lawyers, auditors, tax agents and corporate secretaries. Consultancy and professional fees amounted to approximately S\$173,000, S\$216,000 and S\$281,000 and accounted for 4.3%, 4.0% and 4.7% of administrative expenses in FY2002, FY2003 and FY2004, respectively.

Rental expenses comprise mainly of rental expenses for the leasing of offices, warehouses and workshop premises by our Group in the various countries that we have business operations in. Rental expenses incurred in FY2002 in the PRC, Hong Kong, Malaysia, Thailand and Singapore were approximately S\$21,000, S\$26,000, S\$19,000, S\$8,000 and S\$6,000, respectively. Rental expenses incurred in FY2003 in the PRC, Hong Kong, Malaysia, Thailand and Singapore were approximately S\$42,000, S\$17,000, S\$19,000, S\$15,000 and S\$16,000, respectively. Rental expenses incurred in FY2004 in the PRC, Hong Kong, Malaysia, Thailand and Singapore were approximately S\$72,000, S\$16,000, S\$15,000, S\$15,000 and S\$12,000, respectively. Rental expenses in total amounted to approximately S\$80,000, S\$109,000 and S\$130,000 and accounted for 2.0%, 2.0% and 2.1% of administrative expenses in FY2002, FY2003 and FY2004, respectively.

### Other operating expenses

Other operating expenses comprise mainly of depreciation expenses, foreign exchange losses, provision and write off of bad and doubtful debts and provision and write off of inventories.

Depreciation charges comprise mainly depreciation costs for our plant and equipment, investment properties (our two offices cum warehouse premises at No. 85 Genting Lane, Singapore), properties (our two offices/warehouses/workshops at No. 10 Kaki Bukit, Singapore and our office cum factory in Johor, Malaysia). Depreciation charges for our plant and equipment were approximately S\$109,000, S\$155,000 and S\$227,000 and accounted for 31.8%, 33.0% and 22.4% of other operating expenses FY2002, FY2003 and FY2004, respectively. Depreciation charges for our properties were approximately S\$71,000, S\$72,000 and S\$72,000 and accounted for 20.7%, 15.3% and 7.1% of other operating expenses in FY2002, FY2003 and FY2004, respectively. Depreciation charges for our investment properties were approximately S\$17,000, S\$17,000 and S\$17,000 and accounted for 4.9%, 3.6% and 1.7% of other operating expenses in FY2002, FY2003 and FY2004, respectively. Depreciation charges in total were approximately S\$197,000, S\$244,000, and S\$316,000 and accounted for 57.4%, 51.9% and 31.2% of other operating expenses in FY2002, FY2003 and FY2004, respectively.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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Foreign exchange losses consist mainly of losses arising from transactions in various currencies and year-end translations of currency items. Foreign exchange loss amounted to approximately S\$89,000, S\$32,000 and S\$427,000 and accounted for 25.9%, 6.8% and 42.2% of other operating expenses in FY2002, FY2003 and FY2004, respectively (please refer to the sections entitled "Risk Factors" and "Foreign Exchange Exposure" in this Prospectus for more details).

Provisions and write-off of inventories relates to inventory which remained unused after a specific number of years since their year of purchase. Our Group's specific policy is that inventory of five years old would be provided for in full. In addition, the management would periodically review inventory that might be technologically obsolete and write them off even if these inventory are before the stated five years of age. Provisions and write-off of inventories amounted to an aggregate of approximately S\$57,000, S\$125,000 and S\$100,000 and accounted for 16.6%, 26.6% and 9.9% of other operating expenses in FY2002, FY2003 and FY2004, respectively.

Provision and write-off of bad and doubtful debts relates to amounts owing from customers after a period of time. We do not have a general provision policy. We would review trade receivables of more than 90 days for follow-up with our customers by our management. Our management would make specific provisions or write offs of bad and doubtful debts when amounts are still uncollectible and after legal actions have been taken (we may commence legal actions usually after non-payment of more than 180 days). Provision and write-off of bad and doubtful debts amounted to an aggregate of approximately S\$66,000 and S\$164,000 and accounted for 14.0% and 16.2% of other operating expenses in FY2003 and FY2004, respectively. We did not provide for or write-off any bad and doubtful debts in FY2002 as there were no possible uncollectible debts identified.

### Finance costs

Finance costs comprise mainly of interest charges for banking facilities (including bank borrowings, overdraft and trust receipts) and hire purchases. Finance costs for bank borrowings were approximately S\$78,000, S\$85,000 and S\$70,000 in FY2002, FY2003 and FY2004, respectively. Finance costs for overdraft and trust receipts were approximately S\$1,000 and S\$18,000 in FY2003 and FY2004, respectively (there were no such expenses incurred in FY2002). Expenses incurred for hire purchase (for the purchase of motor vehicles by our subsidiaries in Singapore, Thailand and Malaysia) were approximately S\$6,000 and S\$5,000 in FY2003 and FY2004, respectively (there were no such expenses incurred in FY2002). Total finance costs incurred in FY2002, FY2003 and FY2004, amounted to approximately S\$78,000, S\$92,000 and S\$93,000 and amounted to 0.4%, 0.2% and 0.2% of total revenue, respectively. Any changes in the prevailing interest rates will have an impact on our financial costs.

### Taxation

The corporate rates applied to our Group for FY2002, FY2003 and FY2004 are as follows:-

	FY2002	FY2003	FY2004
Singapore	22.0%	22.0%	20.0%
Malaysia	10.0% on the first RM500,000 28.0% on remaining chargeable income		
Hong Kong	17.5% on all chargeable income		
Thailand	15.0% on the first THB1,000,000 25.0% on the next THB2,000,000 30.0% on the remaining chargeable income		



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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In accordance with the People's Republic of China ("PRC") tax legislation, a foreign investment enterprise is entitled to exemptions from PRC enterprise income tax for two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years. Thereafter, SD Suzhou is entitled to a 50% tax relief from PRC enterprise income tax for the next three years ("tax relief period"). Once the relevant tax relief period expires, enterprise income tax will be charged, depending on the registered location of the subsidiary, at 33% or 24% on the taxable profit reported in the PRC statutory financial statements of the subsidiary.

For FY2002 and FY2003, SD Suzhou was exempted from enterprise income tax. As FY2004 was the first year of tax relief period, therefore a reduced income tax rate of 12% applies, subject to formal approval from the relevant authorities.

Pursuant to the Circular [94] 001 issued by the Ministry of Finance and State Tax Bureau of the PRC, and subsequently confirmed by the State Tax Bureau, SD Beijing was entitled to tax exemption for FY2003 and FY2004.

SD Chongqing and SD Shenzhen, incorporated in PRC as local enterprises, are subject to PRC enterprise income tax which will be charged, depending on the registered location of the subsidiary, at 33% and 15% respectively on the taxable profit reported in the PRC statutory financial statements of the subsidiaries.

Our Group's effective tax rates for FY2002, FY2003 and FY2004 were approximately 14.6%, 18.4% and 17.8% respectively. From FY2002 to FY2003, our effective tax rate increased by approximately 3.8 percentage points, from 14.6% in FY2002 to 18.4% in FY2003. This was mainly due to an overprovision of tax of approximately S\$59,000 in FY2002 that was absent in FY2003. From FY2003 to FY2004, our effective tax rate decreased by approximately 0.6 percentage points, from 18.4% in FY2003 to 17.8% in FY2004. This was mainly due to the utilisation of a deferred tax asset not previously recognised of approximately S\$45,000 for SD Malaysia.

As at the Latest Practicable Date, our Directors are not aware of any investigations or claims by any tax authorities nor any circumstances that may give rise to current or potential tax disputes with any tax authorities.

### Segmentation of Business

Our Group has built a much diversified customer base and is not reliant on any single customer. As at the Latest Practicable Date, we have more than 2,000 customers which consist of both MNCs and SMEs. These customers are also spread across different geographic locations including South Asia, North Asia and other countries.

For the purpose of discussion, we have segmented our revenue and gross profit (in dollar and percentages terms) for FY2002, FY2003 and FY2004:-

- (1) Based on our business divisions:
  - (a) Motion Control Division; and
  - (b) Industrial Computing Division.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

(2) We have segmented our revenue geographically based on the country of origin of our customers into three geographical regions, namely:

- (a) South Asia (including, but not limited to Singapore, Thailand and Malaysia);
- (b) North Asia (including, but not limited to the PRC and Hong Kong); and
- (c) Others (including, but not limited to United Kingdom, United States and Australia).

By business divisions:-

Revenue	FY2002		FY2003		FY2004	
	S\$'000	%	S\$'000	%	S\$'000	%
Motion Control Division	18,098	85.0	34,172	87.6	46,591	87.2
Industrial Computing Division	3,200	15.0	4,831	12.4	6,867	12.8
Total	21,298	100.0	39,003	100.0	53,458	100.0

Gross profit	FY2002		FY2003		FY2004	
	S\$'000	%	S\$'000	%	S\$'000	%
Motion Control Division	5,610	31.0	9,149	26.8	13,325	28.6
Industrial Computing Division	840	26.3	1,125	23.3	1,509	22.0
Total	6,450	30.3	10,274	26.3	14,834	27.8

By geographic regions:-

Revenue by geographical segments	FY2002		FY2003		FY2004	
	S\$'000	%	S\$'000	%	S\$'000	%
South Asia	16,099	75.5	27,719	71.1	34,381	64.3
North Asia	5,090	23.9	11,166	28.6	18,824	35.2
Others	109	0.6	118	0.3	253	0.5
Total	21,298	100.0	39,003	100.0	53,458	100.0

We are unable to provide gross profit margins for the geographical regions because our Group did not record such information historically.



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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### REVIEW OF RESULTS AND OPERATIONS

#### FY2002 versus FY2003

#### REVENUE

Revenue increased by approximately S\$17.70 million or 83.1%, from S\$21.30 million in FY2002 to S\$39.00 million in FY2003. This was mainly due to increases in revenue of approximately S\$16.07 million and S\$1.63 million from our Motion Control Division and our Industrial Computing Division respectively.

The increase in revenue from our Motion Control Division was mainly attributable to increases of revenue from the semiconductor, hard disk and manufacturing industries of approximately S\$9.88 million, S\$2.76 million and S\$2.73 million, respectively. The increases in revenues from the semiconductor and hard disk industries were mainly due to those sectors experiencing a cyclical upswing. The increase in revenue from the manufacturing industry was mainly due to an increase overall demand from new and existing customers, accounting for approximately 76.5% and 23.5% respectively, of the increase in demand.

The increase in revenue from our Industrial Computing Division was mainly attributable to increases in revenue from the semiconductor and hard disk industries of approximately S\$1.01 million and S\$624,000, respectively, offset by a decrease in revenue from the manufacturing industry of S\$156,000. As mentioned above, the increases in revenues from the semiconductor and hard disk industries were mainly due to those sectors experiencing a cyclical upswing. The decrease in revenue from the manufacturing industry was due mainly to the decrease in orders from a customer that made a large order in FY2002.

Sales to North Asia increased by approximately S\$6.08 million, or 119.4%, from S\$5.09 million in FY2002 to S\$11.17 million in FY2003 and this was mainly due to the increase in demand for our motion control systems in the Greater China region. Sales to South Asia increased by approximately S\$11.62 million or 72.2%, from S\$16.10 million in FY2002 to S\$27.72 million in FY2003 and this was mainly attributed to the cyclical upswing in the semiconductor and hard disk industries that our customers based in South Asia experienced.

#### Cost of sales

Cost of sales increased by approximately S\$13.88 million or 93.5%, from S\$14.85 million in FY2002 to S\$28.73 million in FY2003. This increase was mainly attributable to an increase in cost of sales of approximately S\$12.53 million for our Motion Control Division (due to an increase in the volume of components used) and S\$1.35 million to the increase in cost of sales for our Industrial Computing Division (increase in cost of S\$1.55 million attributable to an increase in hardware parts).

#### Gross profit and gross profit margins

Gross profit increased by approximately S\$3.82 million or 59.2%, from S\$6.45 million in FY2002 to S\$10.27 million in FY2003. This was mainly attributed to the increase in total revenue. Gross profit margin decreased by approximately 4.0 percentage points, from 30.3% in FY2002 to 26.3% in FY2003. This was due mainly to our Group reducing our selling prices to attract a higher volume of sales.

#### Other operating income

Other operating income decreased by approximately S\$68,000 or 16.1%, from S\$422,000 in FY2002 to S\$354,000 in FY2003. The decrease was mainly due to the absence of consultancy fee received (S\$88,000 in FY2002). The consultancy fee refers to technical consultancy services rendered to Resem Technologies. The absence of the consultancy fee was because the consultancy services provided was on a "one-off" basis (in FY2002) and none was provided in FY2003. Please refer to the section entitled "Interested Person Transactions" in this Prospectus for details.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Distribution expenses

Distribution expenses in FY2003 amounted to approximately S\$1.11 million, an increase of S\$292,000 or 35.7% over the S\$818,000 incurred in FY2002. This was mainly due to the increase in transport-related costs which increased by approximately S\$280,000, from S\$654,000 in FY2002 to S\$934,000 in FY2003, attributed to the increased business operations of our Group.

### Administrative Expenses

Administrative expenses increased by approximately S\$1.42 million or 35.8%, from S\$3.97 million in FY2002 to S\$5.39 million in FY2003. The increase in administration expenses was due mainly to an increase of payroll-related expenses of approximately S\$1.25 million and an increase of travelling expenses of S\$71,000. Payroll-related expenses increased from approximately S\$2.91 million in FY2002 to S\$4.16 million in FY2003, attributed to both an upward revision of salaries and an increase in the number of staff hired by our Group. Travelling expenses increased from approximately S\$209,000 in FY2002 to S\$280,000 in FY2003, attributed to an increase in travelling undertaken by our staff in line with our increase in business operations.

### Other operating expenses

Other operating expenses increased by approximately S\$127,000 or 37.0%, from S\$343,000 in FY2002 to S\$470,000 in FY2003. The increase was mainly due to an increase in provision of inventories and writing-off of inventories, an increase in bad debts written off, offset by a decrease in foreign exchange losses. Provision of inventories and write-off of inventories increased by approximately S\$68,000, from S\$57,000 in FY2002 to S\$125,000 in FY2003. Provision and write-off of bad and doubtful debts increased from nil in FY2002 to approximately S\$66,000 in FY2003, attributed to the writing-off of a bad debt by SD Malaysia. The decrease in loss on foreign exchange of approximately S\$57,000, from S\$89,000 in FY2002 to S\$32,000 in FY2003, was mainly due to exchange rates fluctuations.

### Finance costs

Financial expense increased by approximately S\$14,000 or 17.9%, from S\$78,000 in FY2002 to S\$92,000 in FY2003. This increase was mainly due to an increase in utilisation of credit facilities.

### Profit before income tax and profit before tax margins

Profit before income tax increased by approximately S\$1.96 million or 110.1%, from S\$1.78 million in FY2002 to S\$3.74 million in FY2003. This increase in profit before income tax was due mainly to our increase in revenue and the less than proportional increase in distribution costs, administrative costs and other operating expenses. Profit before tax margins increased by approximately 1.2 percentage points, from 8.4 per cent in FY2002 to 9.6 per cent in FY2003. This was mainly due to the less than proportional increase in distribution costs, administrative costs and other operating expenses as described above.

### FY2003 versus FY2004

#### REVENUE

Revenue increased by approximately S\$14.46 million or 37.1%, from S\$39.00 million in FY2003 to S\$53.46 million in FY2004. The increase was due to increase in contribution from both of our divisions. Revenue contribution from our Motion Control Division and Industrial Computing Division increased by approximately S\$12.42 million and S\$2.04 million respectively.

The increase in revenue from our Motion Control Division was mainly attributable to increases in revenues from the general automation and semiconductor industries of approximately S\$8.32 million and S\$4.12 million respectively. The increase in revenue from the general automation industry was due mainly to an increase in overall demand from new (approximately 81.6%) and existing customers (18.4%). The increase in revenue from the semiconductor industry was mainly due to the tail-end of the industry's cyclical upswing that occurred in the first half of FY2004.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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The increase in revenue from our Industrial Computing Division was mainly attributable to an increase in revenue from the semiconductor industry of approximately S\$930,000 (due to the tail-end of the industry's cyclical upswing) and an increase in revenue of S\$516,000 from the hard disk industry (mainly due to an increase in orders from a customer in Thailand).

Sales to North Asia increased by approximately S\$7.65 million or 68.5%, from S\$11.17 million in FY2003 to S\$18.82 million in FY2004 and this was mainly due to further increase in demand for our motion control systems in the Greater China region.

Sales to South Asia increased by approximately S\$6.66 million, or 24.0%, from S\$27.72 million in FY2003 to S\$34.38 million in FY2004. This was mainly attributed to the tail-end of the cyclical upswing in the semiconductor industry that our customers based in South Asia experienced and the increase in demand for our motion control systems and industrial computing systems from our customers in the general automation industries that are based in South Asia.

### Cost of sales

Cost of sales increased by approximately S\$9.89 million or 34.4%, from S\$28.73 million in FY2003 to S\$38.62 million in FY2004. This increase was mainly attributable to an increase in cost of sales from our Motion Control Division and Industrial Computing Division of approximately S\$8.25 million and S\$1.64 million respectively.

The increase in cost of sales was generally in line with the increase in revenue.

### Gross profit and gross profit margins

Gross profit increased by approximately S\$4.56 million or 44.4%, from S\$10.27 million in FY2003 to S\$14.83 million in FY2004. This increase in gross profit was mainly due to the increase in revenue and the less than proportional increase in costs of sales. Gross profit margin improved by approximately 1.5 percentage points, from 26.3% in FY2003 to 27.8% in FY2004. The increase in gross profit margins was mainly due to an increase in margins from our Motion Control Division (due to better margins from our customers from North Asia), offset by a decrease in margins from our Industrial Computing Division (due to negative pressure on our selling prices).

### Other operating income

Other operating income increased by approximately S\$158,000 or 44.6% from S\$354,000 in FY2003 to S\$512,000 in FY2004. The increase was due mainly to a forfeited deposit from a customer, an increase in service income and an increase in other income. The compensation from a customer of approximately S\$112,000 (nil in FY2003) was due to a forfeited deposit by a customer in FY2004. The deposit from the customer was forfeited as the customer failed to complete his purchase after paying the deposit. Service income increased by approximately S\$44,000, from S\$196,000 in FY2003 to S\$240,000 in FY2004 as the demand for maintenance services from our Wonderware customers increased.

### Distribution costs

Distribution costs increased by approximately S\$180,000 or 16.2%, from S\$1.11 million in FY2003 to S\$1.29 million in FY2004. The increase in distribution costs was mainly due to the increase in transport-related costs, offset by a slight decrease in advertising and promotion expenses. Transport-related costs increase by approximately S\$186,000, from S\$934,000 in FY2003 to S\$1.12 million in FY2004 (due mainly to the increase in our Group's business operations). This was offset by a decrease in advertising and promotion expenses by approximately S\$9,000, from S\$176,000 in FY2003 to S\$167,000 in FY2004.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Administrative expenses

Administrative expenses increased by approximately S\$650,000 or 12.1%, from S\$5.39 million in FY2003 to S\$6.04 million in FY2004. The increase in administrative expense was due mainly to increases in payroll-related cost, insurance premiums, increase in professional and consultancy fees, travelling expenses and bank charges. The increase in payroll-related expenses of approximately S\$282,000, was due to an upward revision of salaries and an increase of staff hired to support the growth of our Group. Insurance expenses increased by approximately S\$56,000, due to the increase in insurance premiums purchased for our increased number of employees in the PRC. Professional and consultancy fee increased by approximately S\$65,000, mainly due to an increase in services required from the relevant professionals (such as lawyers, auditors, tax agents and corporate secretaries). Travelling expenses increased by approximately S\$43,000, mainly due to an increase in both domestic and international travelling by our employees. Bank charges increased by approximately S\$38,000, mainly due to an increase in usage of banking facilities due to an increase in business operations.

### Other operating expenses

Other operating expenses increase by approximately S\$542,000 or 115.3%, from S\$470,000 in FY2003 to S\$1.01 million in FY2004. The increase in other operating expenses was mainly due to an increase in foreign exchange losses and an increase in depreciation expenses. Losses in foreign exchange increased by approximately S\$395,000, from S\$32,000 in FY2003 to S\$427,000 in FY2004, mainly due to increase in exchange rates losses. Depreciation expense increased by S\$72,000, from S\$244,000 in FY2003 to S\$316,000 in FY2004.

### Finance cost

Finance costs increase marginally by approximately S\$1,000 from S\$92,000 in FY2003 to S\$93,000 in FY2004.

### Profit before income tax and profit before income tax margins

Profit before income tax increased by approximately S\$3.39 million or 90.7%, from S\$3.74 million in FY2003 to S\$7.14 million in FY2004. This was mainly due to our increase in revenue and the less than proportional increase in distribution costs, administrative costs and other operating expenses. Profit before income tax margins increased by approximately 3.7 percentage points, from 9.6% in FY2003 to 13.3% in FY2004 as we experienced a less than proportional increase in distribution costs, administrative costs and other operating expenses as compared to our increase in revenue.

## REVIEW OF FINANCIAL POSITION

### Current Assets

Current assets comprise mainly trade receivables, cash and bank balances, inventories and other receivables and prepayments. As at 31 December 2004, our current assets amounted to approximately S\$20.2 million.

Trade receivables, cash and bank balances, inventories and other receivables and prepayments amounted to approximately S\$8.24 million, S\$5.73 million, S\$5.61 million and S\$615,000, respectively as at 31 December 2004. Trade receivables comprise mainly receivables due from outside parties, associates and related parties of approximately S\$7.82 million, S\$10,000 and S\$406,000 respectively (please refer to the section entitled "Interested Person Transactions" in this Prospectus for more information on these transactions). Inventories consist mainly of finished goods, component parts and work-in-progress of approximately S\$1.04 million, S\$4.39 million and S\$175,000 respectively. Other receivables and prepayments comprise mainly prepayments, other receivables and advances to suppliers of approximately S\$332,000, S\$82,000 and S\$117,000 respectively.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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### Non-current Assets

Our Group's non-current assets comprise mainly of properties, plant and equipment, investment in associates and investment properties. As at 31 December 2004, our non-current assets amounted to approximately S\$5.84 million.

Properties, plant and equipment amounted to approximately S\$4.09 million as at 31 December 2004 and comprise mainly our leasehold and freehold properties (No. 10 Kaki Bukit, Singapore and H.S. (D) 224335, Lot No. PTD 41692, Mukim Senai-Kulai, Johor, Malaysia, respectively), furniture, fittings and office equipment and motor vehicles of S\$3.52 million, S\$226,000 and S\$204,000, respectively. Investment in associates relates to our investments in Maxon Suzhou and Nyquist and amounted to approximately S\$1.08 million. Investment properties amounted to approximately S\$667,000 in relation to our two offices cum warehouse premises in Genting Lane, Singapore.

### Current Liabilities

Current liabilities comprise mainly trust receipts, trade payables, income tax payable, other payables and bank loans. As at 31 December 2004, our current liabilities amounted to approximately S\$10.27 million.

Trade payables accounted for approximately S\$4.86 million or 47.3% of total current liabilities as at 31 December 2004. Trade payables are mainly amounts due to outside parties, associates and related parties (approximately S\$4.60 million, S\$127,000 and S\$133,000, respectively). Other payables consist mainly accruals and payables to outside parties.

### Non-current Liabilities

As at 31 December 2004, our non-current liabilities amounted to approximately S\$1.31 million and comprise of long term bank loans (mainly for the purchase of our properties at No 10, Kaki Bukit, Singapore), non-current portion of finance lease (for the purchase of motor vehicles) and deferred tax liabilities of S\$1.24 million, S\$49,000 and S\$22,000, respectively.

### Proforma Shareholders' Equity

Proforma Shareholders' equity amounted to approximately S\$14.24 million as at 31 December 2004.

### LIQUIDITY AND CAPITAL RESOURCES

Our operations are funded by a combination of internal and external sources of funds. Our internal sources comprise mainly cash generated from revenue derived from our customers while our external sources comprise mainly facilities from banks, financial institutions and loans from our Directors and shareholders. Our main use of cash is for payments of component parts, administrative expenses like salaries and rental expenses as well as repayment of bank borrowings.

Our banking facilities comprises bank overdraft, term loan, guarantees and trade finance facilities. Taking into consideration our present banking facilities, our Directors are of the view that our Group has adequate working capital for our present requirements.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

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We set out a summary of our cash flows for FY2004:-

	<b>FY2004 S\$'000</b>
Net cash generated from operating activities	2,395
Net cash used in investing activities	(204)
Net cash generated from financing activities	1,569
Net effect of exchange rate changes in consolidating subsidiaries	(94)
Net increase in cash	3,666
Cash at the beginning of year	2,059
Cash at the end of year	5,725

### **Cash flows from operating activities**

In FY2004, we recorded positive cash flows from operating activities of approximately S\$2.40 million. This was predominantly due to S\$7.32 million of profit before income tax adjusted for non-cash items amounting to approximately S\$182,000 and a net decrease in working capital changes of approximately S\$4.63 million. Cash outflow from working capital changes was contributed by increase in other receivables and prepayments and inventories and decrease in trade payables and other payable of approximately S\$200,000, S\$1.54 million, S\$2.50 million and S\$4.96 million, respectively. This was partially offset by a decrease in trade receivable amounting to approximately S\$4.57 million. Further, we paid interest and income tax of approximately S\$410,000. This resulted in net cash generated from operating activities of approximately S\$2.40 million.

The increase in other receivables and prepayments of approximately S\$200,000 was attributed to expenditure incurred with the proposed listing of our Company on the SGX-ST. The increase in inventories by approximately S\$1.54 million was because of the increase in demand in sales and hence we increased our inventories in line with the increase in orders from our customers.

The decrease in trade payables by approximately S\$2.50 million was attributed to an increase in funds to repay our trade creditors as tighter credit control policies resulted in an increase in collections of trade receivables from our customers. The decrease in other payables by approximately S\$4.96 million was attributed to the repayment of amounts which were owing to shareholders.

### **Cash flows used in investing activities**

In FY2004, we purchase fixed assets amounting to S\$224,000, comprising mainly of machinery and equipment. Out of these purchase amounts of S\$224,000, S\$204,000 were funded by cash and the remaining of S\$20,000 were funded through finance leases.

### **Cash flows from financing activities**

In FY2004, net cash generated from financing activities amounted to approximately S\$1.57 million. This was due to the draw-down of new short term and long term bank loans of approximately S\$652,000, increases in trust receipts of approximately S\$787,000 and increases in the paid-up capital of our subsidiaries (Portwell and Delta Automation), offset by scheduled repayments of finance lease obligations of S\$29,000, respectively.



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## DIVIDEND POLICY

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Our joint venture company, Maxon Suzhou, had on 5 June 2002, 15 August 2003 and 10 August 2004 declared dividends of approximately RMB1.83 million, RMB1.14 million and RMB1.38 million respectively for FY2001, FY2002 and FY2003.

On 3 June 2005, Maxon Suzhou declared a dividend amounting to approximately RMB1.68 million for FY2004.

On 15 September 2005, our subsidiary, Servo Dynamics, declared dividend amounting to approximately S\$7.09 million. The dividend is payable to the then shareholders of Servo Dynamics as at 31 December 2004.

Save as disclosed above, our Group has not distributed any dividends in the past three financial years.

We currently do not have a dividend policy. We may declare annual dividends with the approval of the Shareholders in a general meeting, but the amount of such dividends shall not exceed the amount recommended by the Directors. The Directors may also declare an interim dividend.

Future dividends will be paid by us as and when approved by our Shareholders or Directors. Any such dividend payments will be subject to the level of our future earnings, cash flow, financial condition, projected levels of capital expenditures and investment plans, including such legal or contractual restrictions as may apply from time to time.

For FY2005, our Directors intend to retain any distributable profits to fund the Group's future acquisitions and investments, where such opportunities arise. However, if such investment and acquisition opportunities do not arise, and in the absence of any circumstances that might reduce the amount of our revenue reserves available to pay dividends, we intend to recommend and distribute dividends of up to 50% of our net profits attributable to our shareholders for FY2005. However, investors should note that the foregoing statements, including the statement on the Proposed Dividend, are merely statements of our present intention and shall not constitute legally binding statements in respect of our future plans, profitability or ability to pay dividends in any of the periods discussed. There can be no assurance that dividends will be paid in the future or as to the amount or timing of any dividends that are to be paid.

**Investors should note that all foregoing statements (including the statements above) are merely non-binding statements of our present intention with respect to future dividends and shall not constitute legally binding statements in respect of our future dividends (including those proposed for FY2005) which are subject to modification (including reduction or non-declaration thereof) in our Directors' sole and absolute discretion.**

**No inference should or can be made from any of the foregoing statements as to our actual future profitability or our ability to pay dividends in any of the periods discussed.**

For information relating to taxes payable on dividends, see the section entitled "Taxation" in this Prospectus.



## CAPITALISATION AND INDEBTEDNESS

The following table shows our cash and cash equivalents debt and capitalisation as at 15 September 2005:-

- (a) based on our Group balance sheet;
- (b) as adjusted after taking into account the Restructuring Exercise and Dividend Payment; and
- (c) allotment and issue of new Shares and the net proceeds of the Invitation.

You should read this table in conjunction with the “Compilation Report of the Reporting Auditors on Proforma Group Financial Information” set out in Appendix D in this Prospectus and the related notes under the section in this Prospectus entitled “Management’s Discussion and Analysis of Financial Conditions and Results of Operations”.

**S\$’000**

	Actual as at 15 September 2005	As adjusted for Restructuring Exercise and Dividend Payment	As adjusted for Proceeds of the Invitation
Cash and cash equivalents	4,576	4,027	10,457
Short term loan (secured)	16	7,106	7,106
Short term finance lease obligations (secured)	80	80	80
Short term debt (unsecured)	1,382	1,382	1,382
Long term debt (secured)	1,588	1,588	1,588
Total shareholders’ equity	18,497	10,866	17,296
Total capitalisation and indebtedness	21,563	21,022	27,452

As at the Latest Practicable Date, our Group does not have any contingent liability.

Our Group has secured adequate banking facilities at commercial rates to meet our business requirements. At the Latest Practicable Date, our short-term facilities (which include letters of credit, trust receipts and overdraft facilities) amounted to approximately S\$12.27 million, of which S\$2.82 million has been utilised. We also have cash and bank balances of approximately S\$4.03 million available for utilisation. Total long-term loans amounted to approximately S\$1.59 million. These long-term loans were granted mainly for our Group’s working capital requirements. The above loans and borrowings bear interest ranging from 1.75% to 18.45% per annum. The banking facilities are secured by our properties and our investment properties.

### CAPITAL EXPENDITURE AND COMMITMENT

We do not have any capital commitments for FY2002, FY2003 and FY2004. Our capital commitment as at the Latest Practicable Date is approximately S\$678,000, of which S\$257,000 will be used as an initial investment for the establishment of a joint venture with a German company to manufacture motion control components in the PRC, S\$150,000 will be for our initial investment into a Taiwanese company which is engaged in the research and development and the manufacture of motion control components, S\$200,000 will be used to invest in JM Vistec, a Singapore company supplying vision related products and S\$71,000 under a foreign currency contract.

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## CAPITALISATION AND INDEBTEDNESS

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As at the Latest Practicable Date our lease commitments amount to S\$405,000.

On 10 August 2005, we acquired a plot of land in Thailand for a consideration of THB12.92 million (approximately S\$517,000) for our assembly facilities. We paid approximately THB4.92 million (approximately S\$197,000) in cash and entered into a loan agreement for THB8.00 million (approximately S\$320,000) to finance the remainder of the purchase.

Other than the above, we have not made any material capital commitments or expenditure for the last three financial years and up to the Latest Practicable Date.

## FOREIGN EXCHANGE EXPOSURE

### FOREIGN EXCHANGE EXPOSURE

Our revenue are mainly denominated in Singapore dollars, US dollars and Renminbi. Our purchases are mainly denominated in US dollars, CHF, Renminbi, Euros, Japanese Yen and Singapore dollars. The table below sets forth, for the periods indicated, the percentage breakdown of our revenue and purchases in different currencies for the FY2002, FY2003 and FY2004.

	FY2002 %	FY2003 %	FY2004 %
<b>Revenue denominated in</b>			
S\$	44.2	34.9	36.9
USD	25.6	28.4	25.1
RMB	9.9	13.2	17.8
Others	20.3	23.5	20.2
<b>Purchases denominated in</b>			
US\$	40.9	42.8	38.6
CHF	16.0	13.6	14.6
RMB	5.5	9.5	11.8
EUD	11.5	11.9	11.4
JPY	12.0	8.6	11.4
S\$	10.6	8.6	10.7
Others	3.5	5.0	1.5

Our foreign exchange gains/(losses) for the last three financials years from FY2002 to FY2004 are shown below: -

	FY2002	FY2003	FY2004
Foreign exchange loss (S\$'000)	89	32	427
As percentage of revenue (%)	0.42	0.08	0.80
As percentage of profit before income tax (%)	5.00	0.85	5.98

Please refer to the section entitled "Management's Discussion and Analysis of Financial Conditions and Results of Operations" in this Prospectus for further details.

Our revenue are mainly denominated in Singapore dollars, US dollars, Renminbi while our purchases are mainly denominated in US dollars, CHF, Renminbi, Euros, Japanese Yen and Singapore dollars.

We are thus exposed to foreign exchange risks arising from different exchange rates between the date of purchase invoice and the time when the payment for such purchases and between the time of customers invoicing and the time when actual payments were received.

The increase in foreign exchange loss of approximately S\$395,000, from S\$32,000 in FY2003 to S\$427,000 in FY2004 was mainly due to the foreign exchange loss incurred pursuant to a repayment of a directors' loan (denominated in Swiss Francs).

We will, from time to time, review our foreign exchange position with the professionals. When appropriate, we may utilise foreign exchange forward currency contracts to minimise any significant impact of foreign currency fluctuation on our operating results.

For the purposes of preparing the financial statements, the assets and liabilities of the foreign subsidiaries are translated into S\$ at the exchange rates prevailing at the balance sheet date, and the results of the foreign subsidiaries are translated using the weighted average exchange rates for the financial year. The exchange differences arising on the translation of the foreign subsidiaries are taken directly to the foreign currency translation reserve. Please see the accounting policies on foreign currencies in Appendix D of this Prospectus.

## DILUTION

Dilution is the amount by which the Invitation Price paid by the subscribers of our Shares in this Invitation exceeds the NTA per Share after the Invitation. Our Adjusted NTA per Share based on the consolidated Pro forma balance sheet of our Group as at 31 December 2004 adjusted for the Restructuring Exercise, taking into account the Dividend Payment declared by our subsidiary Servo Dynamics on 15 September 2005, before adjusting for the net proceeds from the Invitation and based on the pre-Invitation issued and paid up share capital of 131,798,700 Shares was 5.42 cents per Share.

Pursuant to the Invitation in respect of 27,000,000 New Shares at the Invitation Price, our NTA per Share after adjusting for the estimated proceeds from the Invitation and based on the post-Invitation issued and paid-up share capital of 158,798,700 Shares would have been 8.55 cents. This represents an immediate increase in NTA per Share of 3.13 cents to our existing shareholders and an immediate dilution in NTA per Share of 20.45 cents to our new investors.

The following table illustrates the dilution per Share:-

	Cents
Invitation Price per Share	29.00
NTA per Share as of 31 December 2004 based on the pre-Invitation Share Capital of 131,798,700 Shares	5.42
Increase in NTA per Share attributable to existing investors	3.13
NTA per Share after the Invitation	8.55
Dilution in NTA per Share to new public investors	20.45

The following table summarises the total number of Shares issued by us, the total consideration paid to us and the average price paid per Share by our existing shareholders and by our new public investors in the Invitation.

	Number of Shares		Consideration		Average price Per Ordinary Share
		%	S\$'000	%	Cents
Existing Shareholders	131,798,700	83.0	7,140	47.7	5.42
New public investors (excluding purchasers of Vendor Shares)	27,000,000	17.0	7,830	52.3	29.00
Total	158,798,700	100.0	14,970	100.0	

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## SHARE CAPITAL

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We were incorporated in Singapore on 28 December 2004 under the Companies Act as a private limited company under the name of “Automation Control Group Pte Ltd”. At the date of incorporation, our authorised share capital was S\$100,000 comprising 100,000 ordinary shares of S\$1.00 each. The issued and paid-up share capital of our Company was S\$2 comprising 2 ordinary shares of S\$1.00 each. On 6 May 2005, our Company changed its name to “ISDN Holdings Pte Ltd”.

At the Extraordinary General Meeting held on 27 September 2005, our Shareholders approved, *inter alia*, the following:-

- (a) the increase of our authorised share capital from S\$100,000 to S\$100,000,000 divided into 100,000,000 ordinary shares of S\$1.00 each;
- (b) the Restructuring Exercise as described in the section entitled “Restructuring Exercise” of this Prospectus;
- (c) the issue of 6,589,933 ordinary shares of S\$1.00 each pursuant to the Restructuring Exercise as described in the section entitled “Restructuring Exercise” of this Prospectus;
- (d) the sub-division of each ordinary share of S\$1.00 each in the authorised and issued and paid-up share capital of the Company into 20 ordinary shares of S\$0.05 each respectively;
- (e) the conversion of the Company into a public limited company and the change of its name to “ISDN Holdings Limited”;
- (f) the adoption of the new Articles of Association of the Company;
- (g) the adoption of the ISDN Holdings Share Option Scheme and the issue and allotment of new Shares pursuant to the exercise of options granted under the ISDN Holdings Share Option Scheme, the rules of which are set out in Appendix B of this Prospectus;
- (h) the issue of 27,000,000 New Shares of S\$0.05 each pursuant to the Invitation. The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued and fully paid up Shares; and
- (i) the authorisation for the Directors, pursuant to Section 161 of the Companies Act and the Articles of Association, to allot and issue Shares and/or convertible securities in the Company (whether by way of rights, bonus, or otherwise) at any time and from time to time thereafter to such persons and on such terms and conditions for and such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed fifty per cent. (50%) of the issued share capital of the Company, or which the aggregate number of shares and/or convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty per cent. (20%) of the issued share capital of the Company (the percentage of issued share capital being calculated based on the post-Invitation issued share capital of our Company after adjusting for new shares arising from the conversion or exercise of any convertible securities and employee share options on issue at the time such authority is given and which were issued pursuant to previous shareholders’ approval adjusted for any subsequent consolidation or subdivision of shares, and unless revoked or varied by the Company in general meeting and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.

As at the date of this Prospectus, our Company has only one class of Shares, being ordinary shares of S\$0.05 each. The rights and privileges of our Shares are stated in the Articles of Association of our Company. There are no founder, management, deferred or unissued Shares reserved for any purpose.

## SHARE CAPITAL

Upon the allotment and issue of the New Shares which are the subject of the Invitation, the resultant issued and paid-up capital of our Company will be increased to S\$7,939,935 comprising 158,798,700 Shares of S\$0.05 each.

Details of the changes in our issued and paid-up share capital of the Company since 28 December 2004, the date of incorporation of our Company, and our issued and paid-up share capital immediately after the Invitation are as follows: -

<b>Purpose of issue</b>	<b>Par value (S\$)</b>	<b>Number of shares</b>	<b>Resultant issued and paid-up share capital (S\$)</b>
Issue of new ordinary shares of S\$1.00 each on 28 December 2004, date of incorporation of our Company	1.00	2	2
Issue of new ordinary shares of S\$1.00 each pursuant to the Restructuring Exercise	1.00	6,589,933	6,589,935
Issue and fully-paid up ordinary shares of S\$0.05 each pursuant to the sub-division of shares	0.05	131,798,700	6,589,935
New Shares issued pursuant to the Invitation	0.05	27,000,000	1,350,000
Post-Invitation issued share capital	0.05	158,798,700	7,939,935

The authorised share capital and the shareholders' funds of our Company as at the date of its incorporation, before and after adjustments to reflect the Restructuring Exercise, the sub-division of shares and the Invitation are set forth below. These statements should be read in conjunction with the "Compilation Report of the Reporting Auditors on Proforma Group Financial Information" set out in Appendix D of this Prospectus.

	<b>As at incorporation</b>	<b>After adjusting for the Restructuring Exercise and the sub-division of shares</b>	<b>After Invitation</b>
	S\$	S\$	S\$
<b>Authorised Share Capital</b>			
Ordinary shares of S\$1.00 each	100,000	—	—
Ordinary shares of S\$0.05 each	—	100,000,000	100,000,000
<b>Shareholders' Funds</b>			
Issued and paid-up share capital	2	6,589,935	7,939,935
Reserves	—	—	5,080,000
Total Shareholders' Funds	2	6,589,935	13,019,935

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## RESTRUCTURING EXERCISE

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### RESTRUCTURING EXERCISE

Prior to the Invitation, we undertook the following restructuring exercise (“Restructuring Exercise”) resulting in our Company becoming the investment holding company of the Group: -

#### *Acquisitions by SD Suzhou*

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

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.

On 25 January 2005, Yin Yunfeng transferred his entire equity interests of 10% in the registered capital of SD Chongqing to SD Beijing. Pursuant to this transfer, SD Chongqing became a wholly-owned subsidiary of SD Suzhou.

On 31 July 2005, Xia Wuming transferred his entire equity interests of 10% in the registered capital of Delta Automation to SD Shenzhen. Pursuant to this transfer, Delta Automation became a wholly-owned subsidiary of SD Suzhou.

#### *Acquisitions by MCG*

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. Our Directors confirm that the transfers made for the consideration of RMB7,268,000 was based on a valuation report which was required by the local PRC approving authority. The report is valid for the period between 31 March 2005 to 30 March 2006.

On 9 August 2005, Teo Cher Koon and Chin Hee Loong each transferred their equity interest, representing 39.97% of the entire equity interest in Precision Motion Control Philippines Inc to MCG. Teo Cher Koon and Chin Hee Loong, who are also directors in PMC Philippines separately hold 0.015% of the equity interest in PMC Philippines on trust for MCG<sup>(1)</sup>. Pursuant to this transfer, Precision Motion Control Philippines Inc became an associated company of MCG.

On 18 August 2005, MCG has been allotted and issued 50,758 shares of S\$1.00 each in the capital of JM Vistec for a consideration sum of S\$100,000. On 20 September 2005, MCG has been allotted and issued 101,515 partly paid shares of S\$1.00 each, in the capital of JM Vistec for a consideration of S\$200,000 to be paid after this Invitation. Upon the allotment and issue of 20 September 2005, MCG will be holding approximately 67% of the entire issued and paid up share capital in JM Vistec.

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 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 Control as at 31 December 2004. Pursuant to this transfer, Precision Motion Control became a wholly-owned subsidiary of MCG. Thang Yee Chin is the spouse of our Managing Director and President, Teo Cher Koon and Thang Yee Lee is the sister of Thang Yee Chin.



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## RESTRUCTURING EXERCISE

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On 27 September 2005, Teo Cher Koon and 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 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 asset of SD Malaysia as at 31 December 2004. Pursuant to this transfer, SD Malaysia became a 75% owned subsidiary of MCG. The remaining shareholders of SD Malaysia are not related to our Directors, Executive Officers or Substantial Shareholder and their associates.

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 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.

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 SD Thailand to MCG (27,596 ordinary shares), Servo Dynamics (1 ordinary share), Portwell (1 ordinary share), Precision Motion (1 ordinary share) and 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 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 our Company*

On 27 September 2005, Teo Cher Koon, Thang Yee Chin, Cheng Hock Kiang and our Company entered into a sale and purchase agreement pursuant to which our 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 our 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 our Company.

On 27 September 2005, Teo Cher Koon, Wong Kwok Whye Peter and our Company entered into a sale and purchase agreement pursuant to which our 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 our 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 our Company.

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## RESTRUCTURING EXERCISE

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On 27 September 2005, Teo Cher Koon, Teo York Eng and our Company entered into a sale and purchase agreement pursuant to which our 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 our 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 payout of dividends of approximately S\$7.09 million to its then shareholders (please refer to the section entitled “Dividend Policy” in this Prospectus for further details). Pursuant to this transfer, Servo Dynamics became a wholly-owned subsidiary of our Company. Teo York Eng is the mother of Teo Cher Koon.

On 27 September 2005, Teo Cher Koon, Thang Yee Chin, Thang Yee Lee and Chow Ka Man and our Company entered into a sale and purchase agreement pursuant to which our Company acquired all 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 our Company to the abovesaid shareholders respectively. Pursuant to this transfer, MCG became a wholly-owned subsidiary of our Company.

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

### *Transfer of Shares by Assetraise Holdings Limited*

On 27 September 2005, following the subdivision of the shares in our Company into shares of S\$0.05 each, Assetraise Holdings Limited transferred an aggregate of 5,818,298 ordinary shares of S\$0.05 each in our Company to certain employees<sup>(2)(3)</sup> at nil consideration. The purpose for the transfer of such shares was to recognise the past contribution of these employees. Each employee receiving these shares has undertaken not to sell, transfer or otherwise dispose of any part of their shareholdings in our Company for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST and in the six months thereafter not to sell, transfer or otherwise dispose of more than 50% of their interests in our Company.

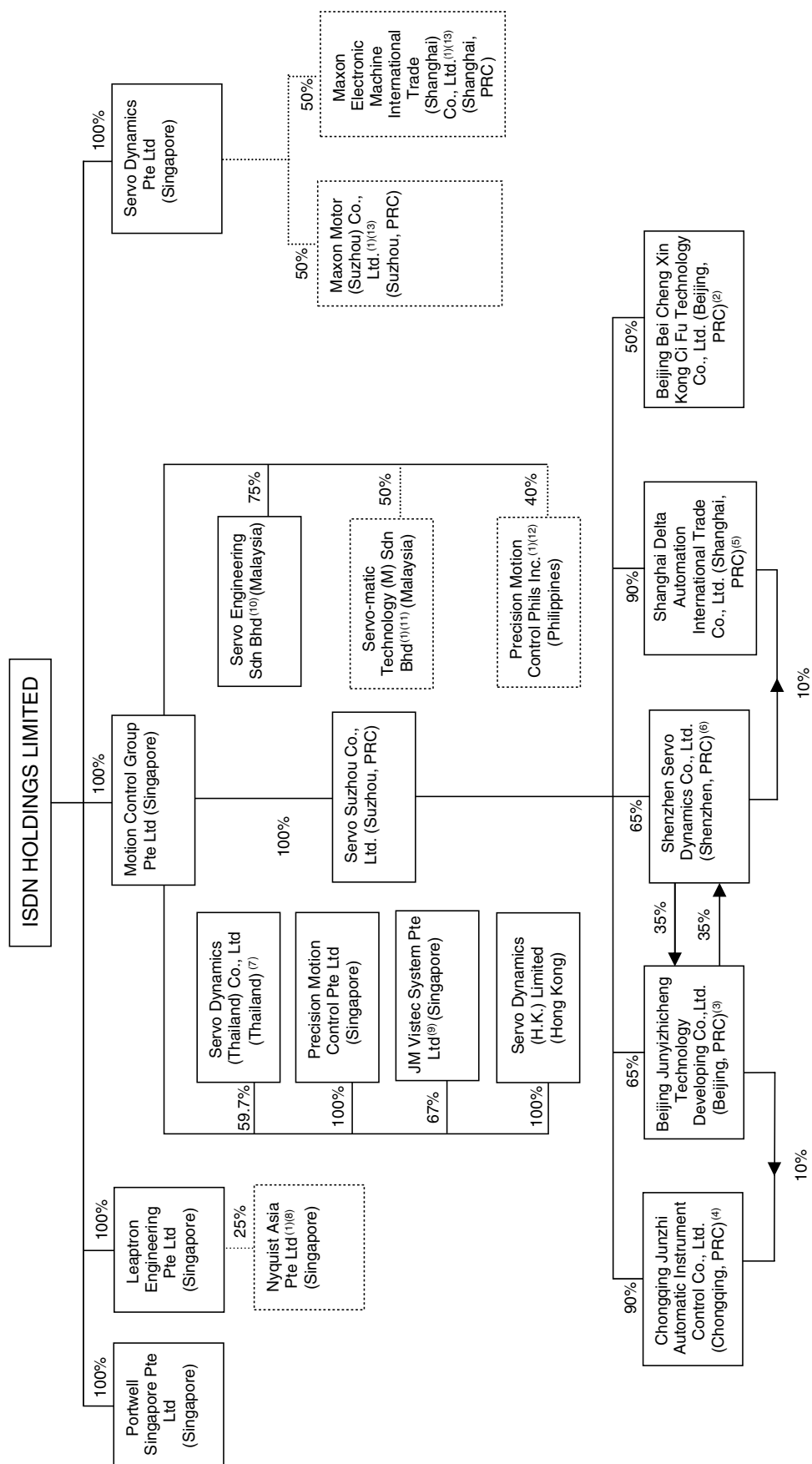
On 27 September 2005, Assetraise Holdings Limited transferred 527,000 ordinary shares of S\$0.05 each to our Non-executive Director Tay Gim Sin Leonard, as consideration for the provision of pre-Invitation consultancy services rendered by Tay Gim Sin Leonard to our Group in connection with this Invitation. Pursuant to the Invitation, our Non-executive Director Tay Gim Sin Leonard, will be selling 263,000 ordinary shares of S\$0.05 each as Vendor Shares and will retain 264,000 ordinary shares of S\$0.05 each. Our Non-executive Director Tay Gim Sin Leonard has undertaken not to sell, transfer or otherwise dispose of any part of his remaining shareholdings in our Company immediately after the Invitation for a period of six months commencing from the date of admission of our Company to the Official List of the SGX-ST. For further details, please refer to the sections entitled “Moratorium” and “Interested Person Transactions” in this Prospectus.

### **Notes:-**

- (1) Under the law of the Philippines, Teo Cher Koon and Chin Hee Loong must be shareholders of PMC Philippines to remain as its directors.
- (2) The employees are Cheng Hock Kiang, Chow Ka Man, Han Moo Juan, Lau Choon Guan, Lim Boon Heng, Loh Yin Peng, Low Sin Yen, Ong Chwee Beng, Sim Leong Seang, Thang Yee Lee and Wong Kwok Whye Peter.
- (3) Thang Yee Lee who is the sister of Thang Yee Chin, the spouse of our Managing Director and President Teo Cher Koon, will be receiving 131,000 shares from Assetraise Holdings Limited.

## GROUP STRUCTURE

Our Group structure following the Restructuring Exercise but before the Invitation is as follows:-



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## GROUP STRUCTURE

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### Notes: -

- (1) This Company is a joint venture company or an associated company of the Group.
- (2) Beijing AMC is deemed to be our subsidiary as we have management control in Beijing AMC. Beicheng New Controlled Automation Technology Co., Ltd. (the other shareholder of Beijing AMC, having interests in 50% of the registered capital of Beijing AMC) has executed a shareholders' agreement dated 8 February 2005 whereby they have relinquished their majority voting rights in Beijing AMC.
- (3) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and SD Shenzhen each respectively holds 65% and 35% of the registered capital of Servo Beijing.
- (4) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and Servo Beijing each respectively holds 90% and 10% of the registered capital of SD Chongqing.
- (5) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and SD Shenzhen each respectively holds 90% and 10% of the registered capital of Delta Automation.
- (6) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and Servo Beijing each respectively holds 65% and 35% of the registered capital of SD Shenzhen.
- (7) As at 17 October 2005, the ordinary shareholders in SD Thailand are comprised of Leaptron, MCG, Portwell, Precision Motion, Servo Dynamics, Udom Warasatian and Srisamphan Warasatian who hold 1, 27,596, 1, 1, 1, 13,715 and 4,685 ordinary shares in the capital of SD Thailand respectively. As at 17 October 2005, 23,000 preferred shares in SD Thailand were issued to Udom Warasatian, Srisamphan Warasatian, Grich Malaniyom, Rukgieart Tubgan, Apinya Warasatian and Sangate Pookrisana all of whom are Thai shareholders 100 preferred shares have the voting and dividend rights of 1 ordinary share. 6 Thai shareholders hold approximately 60% of the issued share capital in SD Thailand (inclusive of ordinary and preferred shares) who in aggregate are entitled to approximately 40.2985% of the voting rights of SD Thailand. The remaining 5 shareholders are from the Group are not Thai and collectively hold 40% of the issued share capital in SD Thailand (inclusive of ordinary and preferred shares) and are entitled to approximately 59.7015% of the voting rights of SD Thailand. Under this shareholding structure, SD Thailand is entitled to own property in Thailand without special approval from the Board of Investment in Thailand.
- (8) The remaining 75% equity interest in Nyquist Asia Pte Ltd is held by an unrelated third party, Nyquist B.V.
- (9) The remaining 33% equity interest in JM Vistec System Pte Ltd are held by parties unrelated third parties, Goh Yiu Jin (31.35%) and his mother, Lim Ah Moey (1.65%).
- (10) The remaining 25% equity interest in Servo Engineering Sdn Bhd is held by three unrelated parties, namely the Estate of Chua Moy Kia, holding approximately 6.429%, Kok Yoke Lin, holding approximately 3.571% and Gan Ho Soon, holding approximately 15%.
- (11) The remaining 50% equity interest in Servo-matic Technology (M) Sdn Bhd is held by an unrelated party, Lee Tick Long.
- (12) Under the law of the Philippines, a director in a company must also be a shareholder in the company. Under the present shareholding, MCG holds 39.97% of the shares in PMC Philippines directly, while Teo Cher Koon and Chin Hee Loong who are directors of PMC Philippines each holds 0.015% of the shares in PMC Philippines on trust for MCG. The remaining 60% equity interest in Precision Motion Control Phils Inc is held by Julieta G. Magadia, Conrado F. Magadia, Divina Gracia R. Tuazon (all of whom are unrelated to our Group, our Directors, Executive Officers, Substantial Shareholder and their associates), each holding 20% equity interest in Precision Motion Control Phils Inc. Julieta G. Magadia is the wife of Conrado F. Magadia.
- (13) The remaining 50% equity interest in both Maxon Motor (Suzhou) Co., Ltd. and Maxon Electronic Machine International Trade (Shanghai) Co., Ltd. are held by an unrelated third party, Interelectric Ag. Interelectric Ag is the holding company of our major supplier Maxon Motor.

## GROUP STRUCTURE

The details of our subsidiaries are set out as follows:-

Name	Date and place of incorporation	Principal business	Principal place of business	% owned
<b><u>Singapore</u></b>				
JM Vistec System Pte Ltd	14 September 2004/ Singapore	Trading and supply of vision related products and industrial automation solutions	321 Victoria Street #01-03 Wholesale Centre Singapore 180321	67% <sup>(8)</sup>
Leaptron Engineering Pte Ltd	13 August 2002/ Singapore	Importing, exporting, servicing and trading of automation products, providing integrated solutions	105 Tampines Road #06-01/02 Wing Tai Industrial Centre Singapore 535127	100%
Motion Control Group Pte Ltd	21 December 2004/ Singapore	Investment holding	No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175	100%
Portwell Singapore Pte Ltd	17 April 1997/ Singapore	Integrated solutions provider of industrial computing software and hardware	No. 10 Kaki Bukit Road 1 #01-37 KB Industrial Building Singapore 416175	100%
Precision Motion Control Pte Ltd	1 July 1996/ Singapore	Importing, exporting, distribution, servicing and repairing of motion control products, electric motor and accessories and providing integrated solutions	No. 10 Kaki Bukit Road 1 #01-40 KB Industrial Building Singapore 416175	100%
Servo Dynamics Pte Ltd	2 October 1986/ Singapore	Importing, exporting, distribution, servicing and repairing of motion control and industrial computing products, electric motor and accessories; and providing integrated solutions	No. 10 Kaki Bukit Road 1 #01-30 Kaki Bukit Industrial Park Singapore 416175	100%
<b><u>PRC</u></b>				
北京北成新控伺服技术有限公司 (Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd.)	7 January 2005/ PRC	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, electronic computer and accessories	Unit 407, No. 26 Building North Third Circle East Road Chaoyang District, Beijing, the PRC	50% <sup>(1)</sup>

## GROUP STRUCTURE

Name	Date and place of incorporation	Principal business	Principal place of business	% owned
北京钧义志成科技发展有限公司 (Beijing Junyizhicheng Technology Developing Co., Ltd.)	30 May 2002/ PRC	Manufacturing and selling precise motion control products and providing system integrated solutions	Unit 307, No. 26 Building, North Third Circle East Road, Chaoyang District, Beijing, the PRC	100% <sup>(2)</sup>
重庆钧智自动化仪器控制有限公司 (Chongqing Junzhi Automatic Instrument Control Co., Ltd.)	18 June 2003/ PRC	Developing and selling motion control products and providing system integrated solutions	No. 2 Nanping West Road Langgao Kaiyue Building Tower B Unit B2-31, Chongqing, the PRC	100% <sup>(3)</sup>
苏州钧信自动控制有限公司 (Servo Suzhou Co., Ltd.)	24 August 2001/ PRC	Manufacturing and selling motion control products and providing system integrated solutions	No. 12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC	100%
上海帝生通国际贸易有限公司 (Shanghai Delta Automation International Trade Co., Ltd.)	9 November 2004/ PRC	International trade and entrepot trade	Unit 317, No.80 Office Building, Xinling Road, Waigaoqiao Free Trade Zone, Shanghai, the PRC	100% <sup>(4)</sup>
深圳市钧诚科技有限公司 (Shenzhen Servo Dynamics Co., Ltd.)	28 May 2002/ PRC	Supplying precise motion control products and providing system integrated solutions	Unit 423, East 4th Floor, No.4 Building, Saige Technology Park, Huaqiang North Road, Futian District, Shenzhen, the PRC	100% <sup>(5)</sup>
<b>Malaysia</b> Servo Engineering Sdn Bhd	17 December 1990/ Malaysia	To engage in the importing, exporting, purchasing, selling, distributing, servicing, repairing and otherwise dealing in automation products, amplifiers, gear box, electric motors and equipment and any parts or accessories used in connection therewith	No. 9-2 Highway Centre, Jalan 51/205, 46050 Petaling Jaya Selangor, Malaysia	75% <sup>(9)</sup>
<b>Hong Kong</b> Servo Dynamics (H.K) Limited	24 October 1995/ Hong Kong	Trading in electronic products	Rm. 4, 5/F, Mega Trade Centre, 1 Mei Wan Street, Tsuen Wan, N.T., Hong Kong	100%
<b>Thailand</b> Servo Dynamics (Thailand) Co., Ltd	9 November 1995/ Thailand	To carry on the business of factory establishment for producing and trading electric appliances, including researching and producing the electric instruments of original machine	50/37-38 Moo 9 Soi Wadnamdaeng Srinakarin Road Bangkaew Sub-district Bangplee District Samutprakan 10540, Thailand	59.7% <sup>(6)</sup>



## GROUP STRUCTURE

The details of our joint venture and associated companies are set out as follows:-

Name	Date and place of incorporation	Principal business	Principal place of business	% owned
苏州钧和伺服科技有限公司 (Maxon Motor (Suzhou) Co., Ltd)	24 November 1995/ PRC	Assembling high-precise mechanically and electronically driven control systems	No. 12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC	50% <sup>(12)</sup>
麦柯胜电机国际贸易(上海)有限公司 (Maxon Electronic Machine International Trade (Shanghai) Co., Ltd.)	15 December 2004/ PRC	Trade agency, engaging in international trade, enrepot trade and trade between agencies within the Free Trade Zone with a principal business on mechanical and electronic products (machinery equipment, electronic equipment, apparatus and instruments, computers and accessories.	Unit 104B, No. 106 Xinling Road, Waigaoqiao Free Trade Zone, Shanghai, the PRC	50% <sup>(12)</sup>
Nyquist Asia Pte Ltd	2 January 2003/ Singapore	Market, distribute and provide technical support for machine and robot control systems	105 Tampines Road #06-01/02 Wing Tai Industrial Centre Singapore 535127	25% <sup>(7)</sup>
Precision Motion Control Phils Inc.	16 June 2005/ the Philippines	Trading of goods such as electro-mechanical equipment and accessories installation on wholesale basis	St Christopher 1, Ponciano Rizal, Calamba, Laguna, the Philippines	40% <sup>(11)</sup>
Servo-matic Technology (M) Sdn Bhd	31 March 2005/ Malaysia	To carry on all kinds of automation business, engineering works, trading import export, design and service of industrial automation parts and all related fields	No. 29A Jalan Ronggeng 11, Taman Skudai Baru, 81300 Skudai, Johor Darul Takzim	50% <sup>(10)</sup>

### Notes:-

- (1) Beijing AMC is deemed to be our subsidiary as we have management control in Beijing AMC. Beicheng New Controlled Automation Technology Co., Ltd. (the other shareholder of Beijing AMC, having interests in 50% of the registered capital of Beijing AMC) has executed a shareholders' agreement dated 8 February 2005 whereby they have relinquished their majority voting rights in Beijing AMC.
- (2) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and SD Shenzhen each respectively holds 65% and 35% of the registered capital of Servo Beijing.
- (3) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and Servo Beijing each respectively holds 90% and 10% of the registered capital of SD Chongqing.
- (4) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and SD Shenzhen each respectively holds 90% and 10% of the registered capital of Delta Automation.
- (5) The PRC company Law requires at least two shareholders for a limited liability company in the PRC. Accordingly, our subsidiaries SD Suzhou and Servo Beijing each respectively holds 65% and 35% of the registered capital of SD Shenzhen.



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## GROUP STRUCTURE

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- (6) As at 17 October 2005, the ordinary shareholders in SD Thailand are comprised of Leaptron, MCG, Portwell, Precision Motion, Servo Dynamics, Udom Warasatian and Srisamphan Warasatian who hold 1, 27,596, 1, 1, 1, 13,715 and 4,685 ordinary shares in the capital of SD Thailand respectively. As at 17 October 2005, 23,000 preferred shares in SD Thailand were issued to Udom Warasatian, Srisamphan Warasatian, Grich Malaniyom, Rukgieart Tubgan, Apinya Warasatian and Sangate Pookrisana all of whom are Thai shareholders 100 preferred shares have the voting and dividend rights of 1 ordinary share. 6 Thai shareholders hold approximately 60% of the issued share capital in SD Thailand (inclusive of ordinary and preferred shares) who in aggregate are entitled to approximately 40.2985% of the voting rights of SD Thailand. The remaining 5 shareholders are from the Group are not Thai and collectively hold 40% of the issued share capital in SD Thailand (inclusive of ordinary and preferred shares) and are entitled to approximately 59.7015% of the voting rights of SD Thailand. Under this shareholding structure, SD Thailand is entitled to own property in Thailand without special approval from the Board of Investment in Thailand.
- (7) The remaining 75% equity interest in Nyquist Asia Pte Ltd is held by an unrelated third party, Nyquist B.V.
- (8) The remaining 33% equity interest in JM Vistec System Pte Ltd are held by an unrelated third parties, Goh Yiu Jin (33.35%) and his mother, Lim Ah Moey (1.65%).
- (9) The remaining 25% equity interest in Servo Engineering Sdn Bhd is held by three unrelated parties, namely the Estate of Chua Moy Kia, holding approximately 6.429%, Kok Yoke Lin, holding approximately 3.571% and Gan Ho Soon, holding approximately 15%.
- (10) The remaining 50% equity interest in Servo-matic Technology (M) Sdn Bhd is held by an unrelated party, Lee Tick Long.
- (11) Under the law of the Philippines, a director in a company must also be a shareholder in the company. Under the present shareholding, MCG holds 39.97% of the shares in PMC Philippines directly, while Teo Cher Koon and Chin Hee Loong who are directors of PMC Philippines each holds 0.015% of the shares in PMC Philippines on trust for MCG. The remaining 60% equity interest in Precision Motion Control Phils Inc is held by Julieta G. Magadia, Conrado F. Magadia, Divina Gracia R. Tuazon (all of whom are unrelated to our Group, our Directors, Executive Officers, Substantial Shareholder and their associates), each holding 20% equity interest in Precision Motion Control Phils Inc. Julieta G. Magadia is the wife of Conrado F. Magadia.
- (12) The remaining 50% equity interest in both Maxon Motor (Suzhou) Co., Ltd. and Maxon Electronic Machine International Trade (Shanghai) Co., Ltd. are held by an unrelated third party, Interelectric Ag. Interelectric Ag is the holding company of our major supplier, Maxon Motor.

## PRINCIPAL SHAREHOLDERS

### OWNERSHIP STRUCTURE

The Directors and Shareholders of our Company and their respective direct and deemed shareholdings immediately before and after the Invitation, are set out below: -

	Before Invitation				After Invitation			
	Direct interest Number of Shares	%	Deemed interest Number of Shares	%	Direct interest Number of Shares	%	Deemed interest Number of of Shares	%
<b>Directors</b>								
Lim Siang Kai	-	-	-	-	-	-	-	-
Teo Cher Koon	-	-	121,591,700	92.25	-	-	109,154,700	68.74
Kong Deyang	-	-	-	-	-	-	-	-
Tay Gim Sin Leonard	527,000	0.40	-	-	264,000	0.17	-	-
Soh Beng Keng	-	-	-	-	-	-	-	-
<b>Substantial Shareholder</b>								
Assetraise Holdings Limited <sup>(1)</sup>	121,591,700	92.25	-	-	109,154,700	68.74	-	-
<b>Others</b>								
Employee Group <sup>(2)</sup>	9,549,000	7.25	-	-	9,549,000	6.01	-	-
Thang Yee Lee <sup>(3)</sup>	131,000	0.10	-	-	131,000	0.08	-	-
<b>Public</b>	-	-	-	-	39,700,000	25.00	-	-
<b>Total</b>	<b>131,798,700</b>	<b>100.00</b>			<b>158,798,700</b>	<b>100.00</b>		

**Notes:-**

- (1) Assetraise Holdings Limited is wholly owned by our Managing Director and President Teo Cher Koon.
- (2) The Employee Group consists of Cheng Hock Kiang, Chow Ka Man, Han Moo Juan, Lau Choon Guan, Lim Boon Heng, Loh Yin Peng, Low Sin Yen, Ong Chwee Beng, Sim Leong Seang and Wong Kwok Whye Peter.
- (3) Thang Yee Lee is the sister of Thang Yee Chin, who is the spouse of our Managing Director and President, Teo Cher Koon.

None of the employees in the Employee Group are related to the Directors or the Substantial Shareholder or their associates.

Save as disclosed under the section entitled “Restructuring Exercise” in this Prospectus, there has not been any significant change in the percentage of ownership of our Shares in the last three years prior to the Latest Practicable Date.

The Shares held by our Directors and Substantial Shareholder do not carry different voting rights from the New Shares.

There is no known arrangement, the operation of which may at a subsequent date, result in a change in the control of our Company.

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## MORATORIUM

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### MORATORIUM

Assetraise Holdings Limited which holds 109,154,700 Shares, representing 68.74% of our Company's enlarged issued share capital immediately after the Invitation has undertaken not to transfer, assign or dispose of any part of its shareholding interests in our Company for a period of six months commencing from the Date of Listing. In addition, our Managing Director and President, Teo Cher Koon who holds 100% of the issued share capital in Assetraise Holdings Limited has also undertaken not to transfer, assign or dispose of any part of his shareholding in Assetraise Holdings Limited for a period of six months commencing from the date of admission of our Company to the Official List of SGX-ST ("Date of Listing").

To demonstrate his commitment to our Group, our Non-executive Director, Tay Gim Sin Leonard, who personally holds 264,000 Shares, representing approximately 0.17% of our Company's enlarged issued share capital immediately after this Invitation has undertaken not to transfer, assign or dispose of any part of their respective shareholding interests in the Company for a period of six months commencing from the Date of Listing.

To demonstrate their commitment to our Group, our Executive Officers and employees, namely Cheng Hock Kiang, Chow Ka Man, Han Moo Juan, Lau Choon Guan, Lim Boon Heng, Loh Yin Peng, Low Sin Yen and Ong Chwee Beng, Sim Leong Seang, Thang Yee Lee and Wong Kwok Whye Peter who in aggregate hold 9,680,000 Shares, representing approximately 6.09% of our Company's enlarged issued share capital immediately after this Invitation have undertaken not to transfer, assign or dispose of any part of their respective shareholding interests in the Company for a period of six months commencing from the Date of Listing and not to transfer, assign or dispose of more than 50% of their shareholding interests in the Company for six months thereafter.

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## VENDORS

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### VENDORS

The name of the Vendors and the number of Shares that will be offered by the Vendors (in proportion to the shareholding before the Invitation) pursuant to the Invitation are set out below:

	Shares held immediately before the Invitation		Vendor Shares offered pursuant to the Invitation		Shares held after the Invitation	
	Number of Shares	% of pre-Invitation share capital	Number of Vendor Shares	% of pre-Invitation share capital	Number of Shares	% of post-Invitation share capital
Assetraise Holdings Limited	121,591,700	92.25	12,437,000	9.44	109,154,700	68.74
Tay Gim Sin Leonard	527,000	0.40	263,000	0.20	264,000	0.17

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## GENERAL INFORMATION ON OUR GROUP

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### HISTORY AND DEVELOPMENT

Our Company was incorporated as “Automation Control Group Pte Ltd” in the Republic of Singapore on 28 December 2004 as a private limited company under the Companies Act. The principal business activity of our Company is investment holding. On 6 May 2005, the name of our Company was changed to “ISDN Holdings Pte Ltd” and on 11 November 2005, it was changed to “ISDN Holdings Limited” pursuant to our Company’s conversion to a public limited company.

Our Group dates back to 1987, when Teo Cher Koon, our Managing Director and President, joined Servo Dynamics, a company involved in the import, sales and marketing of servo motors. Teo Cher Koon’s initial investment in Servo Dynamics was equivalent to one third of its then issued and paid up capital and he was the Managing Director supported by two employees. Servo Dynamics commenced its business with the distribution of servo motors from Baldor Electric Company (a USA based company) and selling them to universities and polytechnics in Singapore for use as teaching aids.

As the industry evolved, we observed an increase in demand for a wide range of motion control solutions. Such solutions comprise assemblies of several different types of products based on the most efficient and cost effective design. Thus, we began to establish business relationship with suppliers of several international brands of motion control components in 1989. These products were offered to the domestic market initially, but we subsequently expanded our business to include the overseas market.

In 1989 and 1990, Teo Cher Koon purchased the remaining issued and paid up capital of Servo Dynamics from the other two then shareholders. In 1990, we shifted our business operations to a factory in Kallang Way. We observed that there was an emergence of the semiconductor industry in Singapore and other parts of Asia and also saw a potential for our growth in several regional markets. As such, in the same year, we incorporated the first of our regional subsidiaries, SD Malaysia in Malaysia to engage in the business of providing motion control solutions to the Malaysian market.

In the same year, we also entered into an exclusive distribution agreement<sup>(1)</sup> with Maxon Motor, a company established in Switzerland that is involved in the manufacturing of high tech micro motors. Under the exclusive distribution agreement, Maxon Motor supplied us with motion control components. To date, we are the exclusive distributor of “Maxon Motor” motion control components in Singapore, Malaysia, Thailand, Hong Kong, Philippines and Indonesia, and the products are mainly used in the assembly of certain of our motion control systems.

In 1992, having identified the growth of the industrial computing industry we expanded our business operations to assemble and provide industrial computers to various industries.

In 1995, as part of our expansion plans into Greater China, we incorporated SD Hong Kong and Maxon Suzhou in Hong Kong and the PRC respectively to engage in integration and sale of a wide range of motion control components and solutions as well as to develop the market for Maxon range of products in Greater China. In the following year, Interelectric AG invested in Maxon Suzhou for the purpose of setting up an assembly facility to engage in the business of supplying motion control systems containing “Maxon Motor” motion control components.

In 1997, following the wave of the computerisation of factory automations in the industrial sector, we incorporated Portwell in Singapore to increase our capabilities by offering industrial computing solutions. Portwell is engaged in the business of providing solutions for integrating industrial computer hardware and software to companies in various industries. In the same year, we clinched a distribution agreement with Wonderware Corporation and also to set up a sales support centre for the “Wonderware” software programme at our premises.

In 1998, just after the Asian economic crisis, in order to establish a foothold in Thailand, we invested into SD Thailand in Thailand. In the same year, we secured another contract from LTA to supply touch panel systems for its MRT ticketing machines.

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## GENERAL INFORMATION ON OUR GROUP

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In 2001, we incorporated SD Suzhou to focus on the design, assembly and sale of motion control systems constituting components other than “Maxon Motor” motion control components. Motion control systems that contain “Maxon Motor” components are mainly provided by Maxon Suzhou.

In 2002, we incorporated Leaptron in Singapore. Leaptron was formed to focus on the distribution and integration of machine vision control systems.

In the following year, Leaptron signed an agreement with Nyquist B.V., a Dutch company, in which the parties agreed to form Nyquist to market, distribute and provide technical support for Nyquist B.V.’s robot control systems products.

To strengthen our foothold and as part of our expansion plans in the PRC, we incorporated subsidiaries, joint venture and associated companies in the PRC, namely SD Shenzhen and SD Beijing in 2002 and SD Chongqing in 2003, Maxon Shanghai and Delta Automation in 2004 as well as Beijing AMC in 2005. Maxon Shanghai and Delta Automation operate in the Shanghai Waigaoqiao Free Trade Zone. In addition, we have a presence in the major cities in the PRC, such as Beijing, Mianyang, Shanghai, Shenzhen, Shenyang, Chongqing, Xi’an, Harbin, Fuzhou, Chengdu, Guangzhou, Wuhan and Suzhou to conduct our PRC sales and marketing activities.

On 24 January 2005, 24 January 2005, 25 January 2005 and 1 April 2005, SD Shenzhen, Servo Beijing, SD Chongqing and Delta Automation respectively became the wholly owned subsidiaries of SD Suzhou. Pursuant to our acquisition of SD Suzhou on 30 May 2005, SD Chongqing, SD Shenzhen, Servo Beijing and Delta Automation became our wholly-owned subsidiaries.

On 16 June 2005, as part of our regional expansion plans, we invested in PMC Philippines in the Philippines a company engaged in the trading of goods, such as electro-mechanical equipment and accessories installation on wholesale basis.

On 6 July 2005 we entered into an agreement to invest in JM Vistec, a company incorporated in Singapore to engage in the business of supplying vision related products and industrial automation solutions.

To streamline and rationalise the corporate structure of our Group and in connection with the listing of our Company, we undertook a Restructuring Exercise as described in the section entitled “Restructuring Exercise” in this Prospectus.

Note:-

- (1) Our subsidiary, Servo Dynamics, and Maxon Motor entered into an exclusive agreement for a period of 3 years commencing from 1 October 2004 until 30 September 2007 to sell Maxon Motor products in Singapore, Malaysia, Thailand, Indonesia, Hong Kong and the Philippines. Prior to the exclusive agreement, Servo Dynamics has been a distributor of Maxon Motor products since 1990.

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## GENERAL INFORMATION ON OUR GROUP

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### BUSINESS OVERVIEW

Our business is divided into two segments, namely:-

- (a) Motion Control Division; and
- (b) Industrial Computing Division.

We are a mechatronics engineering Group providing integrated solutions to our motion control and industrial computing customers, including design, customisation, assembly installation and after sales support.

The design and customisation capabilities provided by our team of technical engineers allow us to commence and maintain stable relationships with our customers. With our technical expertise, we are able to provide our customers with complete solutions that would both eliminate system incompatibilities and enhance the performance of our customers' machines.

We treat all queries from our customers or potential customers seriously and our Directors believe that our sales and technical engineers are adequately trained to assist our customers in making informed decisions in their selection of motion control systems and industrial computing systems. We also strive to ensure that all our customers' needs could be met from our existing complement of component parts (to be assembled into motion control and industrial computers systems), operating as a one-stop integrated solution provider.

#### (a) MOTION CONTROL DIVISION

Motion control is the accurate control of the movement of an object (by a combination of mechanical movements) based on either speed, distance, load, inertia or combination of all these factors. Thus a motion control system is a precise electro-mechanical assembly that can be a functional module of a machine or a complete machine by itself.

Our Motion Control Division is an integrated solutions provider that specialises in the design, assembly, sale and installation of motion control systems commissioned by our mainly MNC and SME customers for their equipment. We design and assemble major functional modules for semiconductor manufacturing equipment such as SMT machines, robotic arms and wafer processing equipment and for X-ray machines, industrial robots and disk drive testing machines. Revenue from our Motion Control Division accounted for approximately 85.0%, 87.6% and 87.2% of our total revenue for FY2002, FY2003 and FY2004 respectively.

We provide a full complement of products and services to meet our customers' requirements for motion control systems in their specific industrial environment. Our customers commission us to design, assemble and install motion control systems for them as this would enable them to reduce time and costs on design and engineering motion control systems themselves. We are also able to reduce operating costs for our customers as we have the technical expertise to design motion control systems that are efficient and reliable and we provide the required after-sales servicing support as well.

Our Motion Control Division designs, assembles and installs motion control systems for our customers from a wide range of industries including, semiconductor, general automation, manufacturing and hard disk.

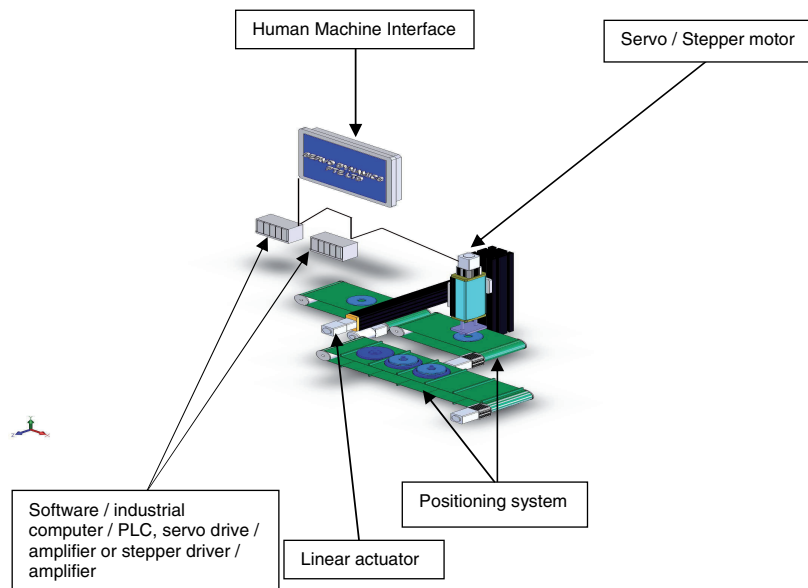


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## GENERAL INFORMATION ON OUR GROUP

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Our motion control systems are typically used in factory automation as shown below: -



Generally, our motion control systems can be divided into two categories as follows: -

**(i) Mechanical motions**

- Ballscrew and Lead screw
- Timing belt and Timing pulley
- Coupling
- Precision gear reducer
- Linear motion guides
- Actuator

**(ii) Electrical, Electronics and Software**

- Touch Screen Monitor;
- PLC;
- Servo motor and Servo drives
- Stepper motor and Stepper drives
- AC motors and DC motors
- Motion controller
- Linear servo motor

We also possess the capability to design, assemble and install one-off customised motion control systems to customers with special needs and requirements. Such motion control systems may involve highly complex and sophisticated designs, which are not easily available in the mass market and contribute to our value add for our design and development capabilities.

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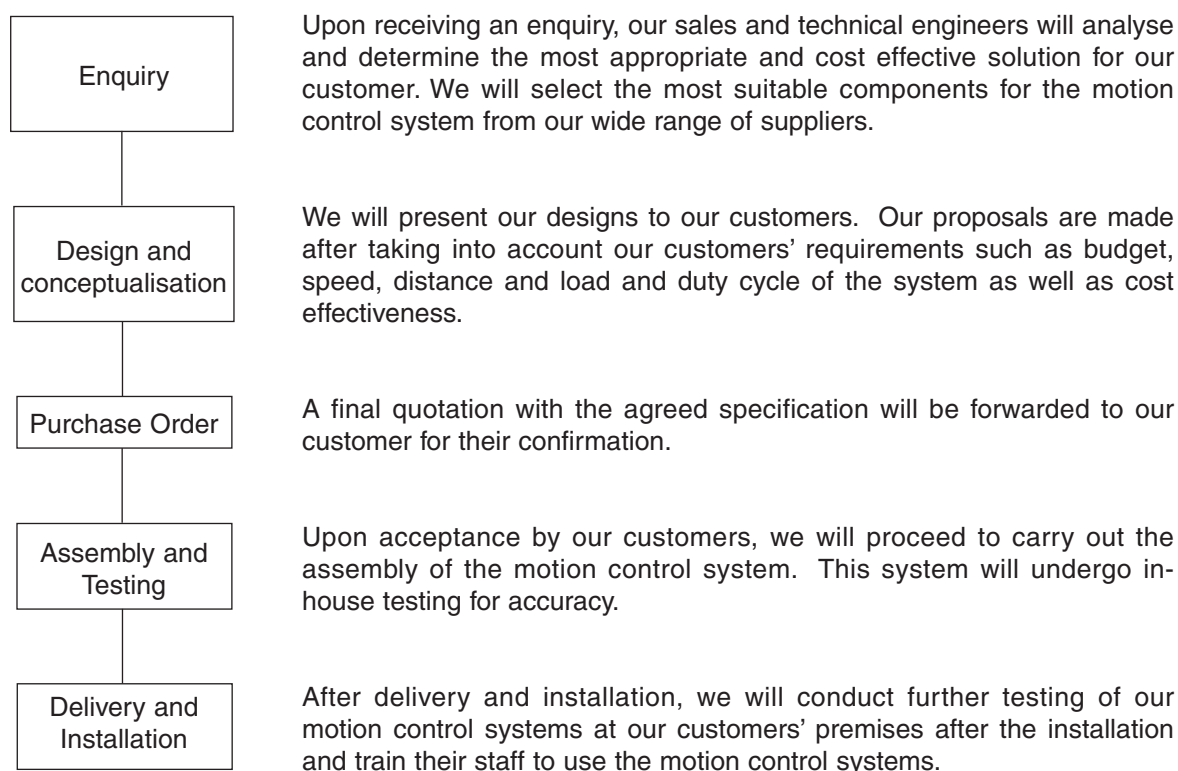
## GENERAL INFORMATION ON OUR GROUP

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Our Group undertakes assembly activities at most locations where we conduct our business. We established our operations at these locations to maximise our reach to our customers and to optimise our comparative cost advantage.

A typical motion control system comprise of (a) a machine main controller (e.g. an Industrial computer system or a PLC); (b) a Motion controller and (c) a positioning system. A positioning system commonly consists of a belt and pulley mechanism or a Ballscrew mechanism that is driven by a Servo or Stepper motor to serve as a drive unit or a Linear servo motor. An example of a positioning system is a Servo motor driving a Ballscrew stage for pick and place application. The Servo motor will accurately convert a rotary motion into a linear motion via a Ballscrew.

The main processes of a typical motion control integrated solutions project is as follows:-



By leveraging on our technical expertise of motion control systems with our strategic business partners and suppliers, we are able to provide our customers with complete and technologically advanced solutions.

### (b) INDUSTRIAL COMPUTING DIVISION

Our Industrial Computing Division provides integrated solutions to cater to the industrial computing needs of our customers. Under this division, we design, customise and sell a wide range of industrial hardware and software to our customers. Most of our customers in this business division are manufacturers of factory automation systems for various industries such as semiconductor, general automation, manufacturing and hard disk. Revenue from our Industrial Computing Division accounted for approximately 15.0%, 12.4% and 12.8% of our total revenue for FY2002, FY2003 and FY2004 respectively

We provide hardware and software solutions to meet our customers' industrial computing needs. Our products and services include customising and assembling industrial computer systems and installation of software on the system for our customers. These industrial computer systems may be used for the manufacturing and production processes in the oil and gas, medical, water treatment, telecommunication and semiconductor industries.

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## GENERAL INFORMATION ON OUR GROUP

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Our products and services provided by our Industrial Computing Division can be broadly categorised as follows: -

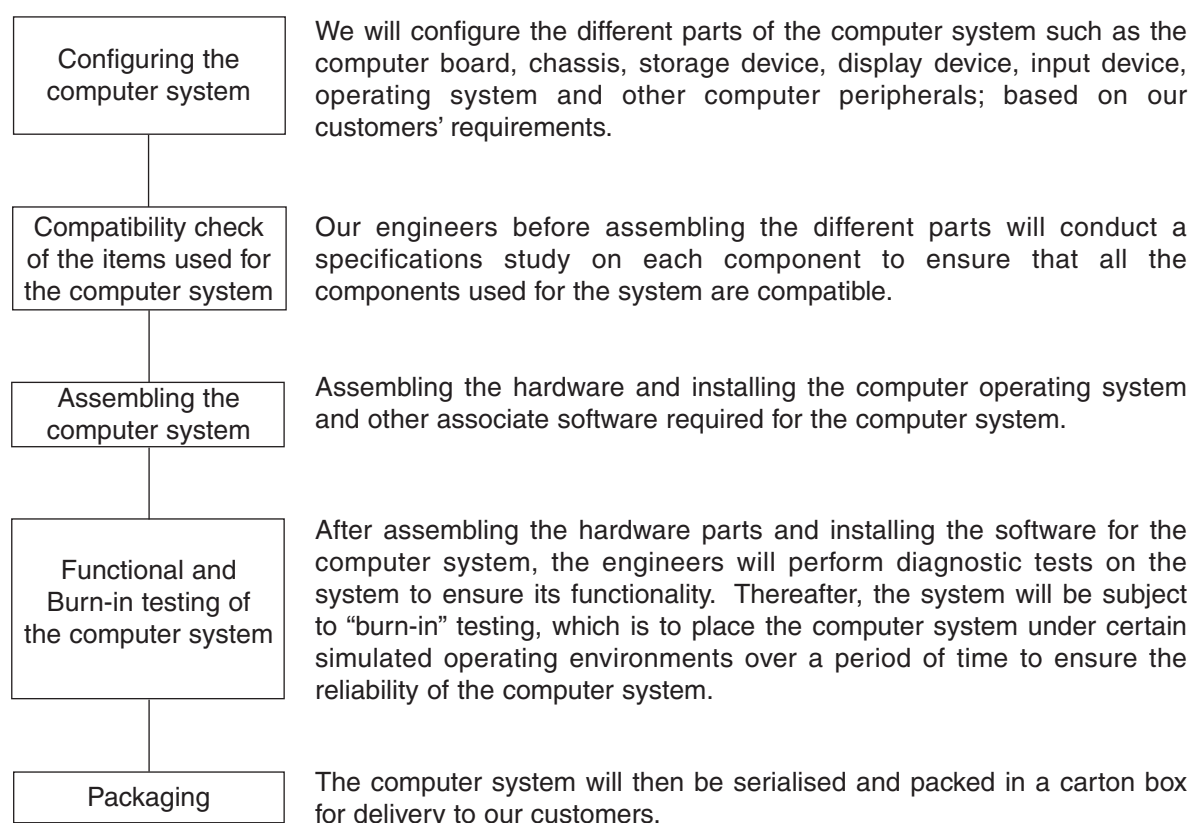
- (i) Industrial computers;
- (ii) Distribution of the “Wonderware” software programme; and
- (iii) Systems integration services.

### (i) Industrial computers

We customise, assemble and sell industrial computers according to the customers’ requirement and budget using various components and parts which we source from numerous suppliers. We assemble industrial computers at our subsidiary, Portwell, which is equipped with assembly and testing capabilities. Revenue from the customisation, assembly and sale of industrial computers accounted for approximately 68.4%, 83.0% and 82.6% of our revenue from Industrial Computing Division in FY2002, FY2003 and FY2004 respectively.

Our industrial computers team is in charge of formulating a cost efficient and effective solutions to assemble the various industrial computing hardware and software to meet our customers’ needs.

The customisation and assembly of an industrial computer system involves configuring the parts according to specifications, gathering the various parts, assembling the parts and testing the complete system. The details of the assembly process are as follows:



In order to ensure the competitiveness and continuous improvement of our products, regular audits on delivery, quality and service support are conducted by our Industrial Computing Division. We also maintain good working relationships with our suppliers so as to obtain the computer parts and software at competitive pricing.

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## GENERAL INFORMATION ON OUR GROUP

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### (ii) **Distribution of the Wonderware software programme**

We are a distributor for the Wonderware software programme. Wonderware is a fully integrated suite of software for industrial automation. This component-based manufacturing management information system provides our customers with various automation tools, including, but not limited to InTouch, Industrial Application Server, IndustrialSQL Server, DT Analyst, InTrack, InBatch, InControl, SuiteVoyager and I/O servers.

Wonderware features high-end software modules that are suitable for use in continuous, discrete and batch manufacturing environments. Its components can be used to collect and manage production information, visualise and analyse factory automation process, track and improve production operations, control machines and processes and manages batches. Its usage spans every level of the factory automation system from control to business systems. We also conduct monthly training for our existing and potential customers as well as the distributors of Wonderware.

Revenue from the distribution of Wonderware contributed approximately 29.9%, 13.9% and 14.0% to the revenue of our Industrial Computing Division for FY2002, FY2003 and FY2004, respectively.

### (iii) **System Integration Services**

We are also engaged in the provision of system integration services for industrial computing systems. We provide training, consultation, feasibility studies, supply and installation of hardware and software to our end users. We also provide advisory services on software development and integration to provide a complete solution to meet the end users' functional requirements.

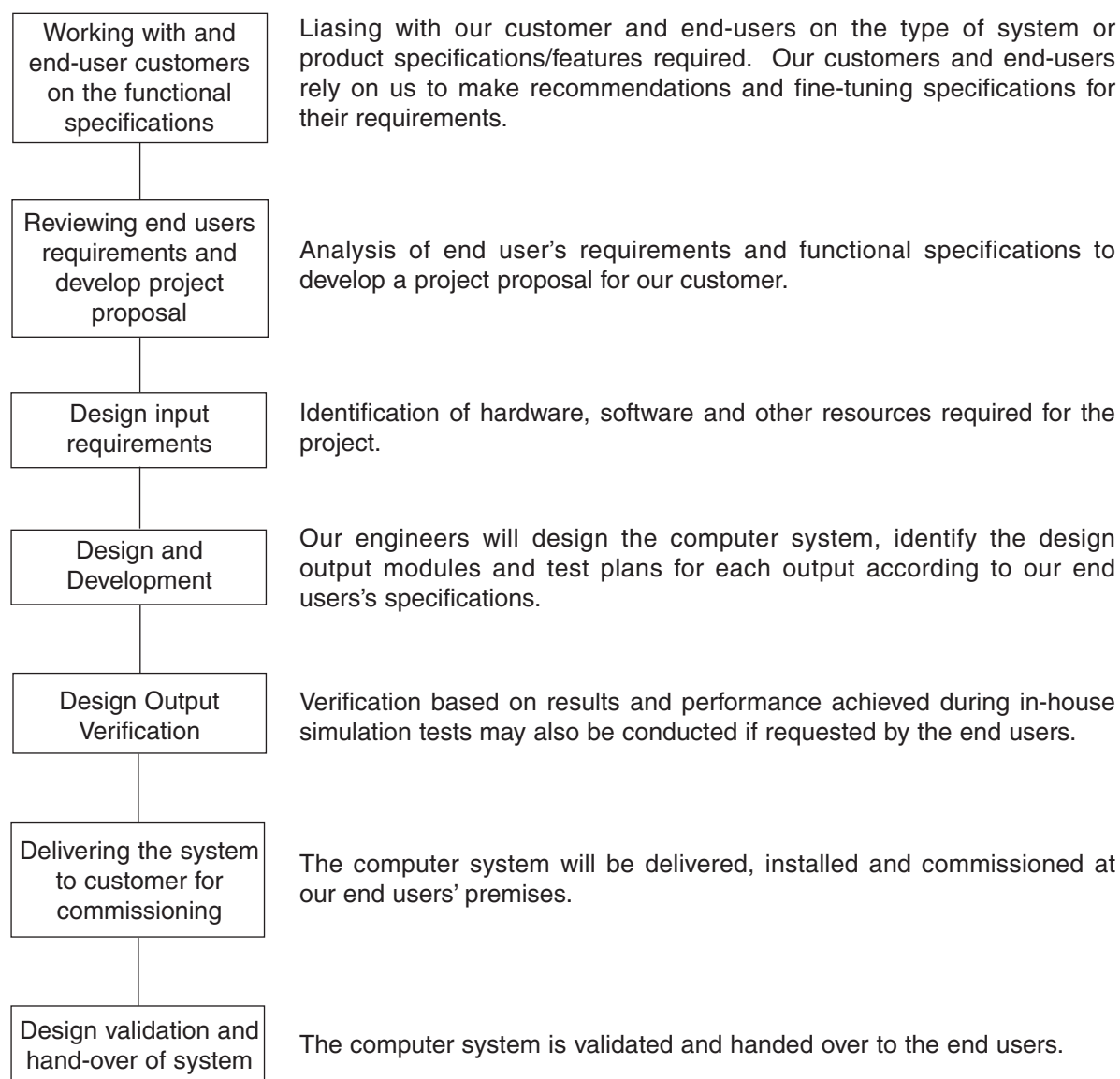
Our system integration services team works closely with our customers, who are mostly system integrators. These customers sub-contract to us certain system integration services projects. Through these projects and other partnerships with these customers, our system integration services team is able to gain first hand experience and the technical know-how in systems integration. With the increase of their competency, our systems integration services team is able to offer better designs to our customers which will result in more cost efficient processes which translate into cost savings for us, our customers and the end users.

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## GENERAL INFORMATION ON OUR GROUP

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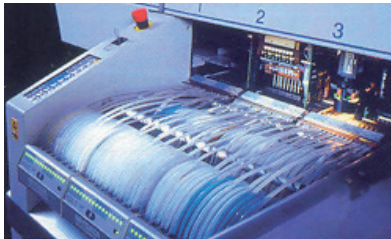


A typical project of our system integration services team comprises the following processes:-



Revenue from our system integration services accounted for approximately 1.7%, 3.1% and 3.4% of revenue from our Industrial Computing Division in FY2002, FY2003 and FY2004, respectively.

## GENERAL INFORMATION ON OUR GROUP

The table below sets out certain industry segments that our customers operate in and some of the products and solutions we design and install for them:-


Industry Segment	Customer End Products and applications	Our Products
Semiconductor	Ultra-fast feeders	All motors, bearings, controllers, couplings, drivers, encoders, gears, slides, industrial computing hardware and software, etc.
	SMT placement equipment	
	Lithography systems	
	Wafer processing systems	
<div></div> <p>SMT placement equipment</p>		
General Automation including:		
Automotive	Assembly production line	All motors, bearings, controllers, couplings, drivers, encoders, gears, slides, industrial computing hardware and software, etc.
	Robotic system for dispensing	
Power tools	Battery-driven professional quality tools	Maxon Motors gear boxes, encoders and Servo amplifiers
	Power screwdrivers	
	Nail guns	
<div></div> <p>Battery driven professional quality tools</p>		
Security technology	Mobile inspection systems	Maxon Motors gear boxes, encoders and Servo amplifiers
	Surveillance cameras	
	Access and lock systems	
	Automated gates	
<div></div> <p>Security systems</p>		

GENERAL INFORMATION ON OUR GROUP

Medical Science	Battery driven hand-held devices	Maxon Motors gear boxes, encoders and Servo amplifiers
	Surgical robots	
	Micro pumps	
	Dialysis systems	
	Dosing systems	
	Radiation equipment	



X-ray Radiographic System



Radiotherapy Simulator



Zoom Operation Microscope



Aberrometer




Surgical Cutter with Suction




## GENERAL INFORMATION ON OUR GROUP

Robotics	Humanoid robots	Maxon Motors gear boxes, encoders and Servo amplifiers
	Service robots	
	Educational robots	


Robotics

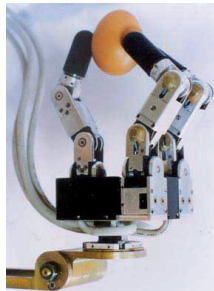




Humanoid robot BH-1

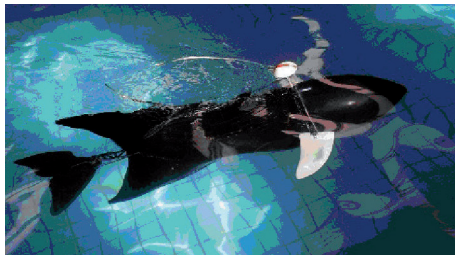
Wall-climbing Robot






Pipeline Robot

Smart Hand



Robot Fish


Cash and ticket dispensers	Card readers	Maxon Motors gear boxes, encoders and Servo amplifiers
	Money changing machines	
	Labelling machines	



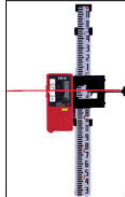

Card readers

## GENERAL INFORMATION ON OUR GROUP

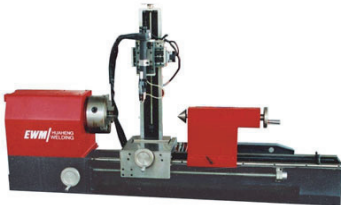
Oil and gas	Integration services; through partnerships with system integrators, to provide basic controls to turnkey automation solutions	Wonderware and other hardware and software
Food and beverage	Integration services; through cooperation with system integrators, to provide basic controls to turnkey automation solutions	
Manufacturing	Industrial robots	All motors, bearings, controllers, couplings, drivers, encoders, gears, slides, industrial computing hardware and software, etc.
	Materials handling systems	
	Microscopes	
	Precision scales	
	Automatic levelling systems	




Electronic Total Station Instrument



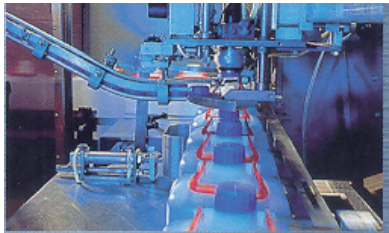
Automatic Levelling Instrument




Automatic Welding System



Surface Roughness Measuring Instrument



Line assembly automation



Microscopes

Hard disk	Disk drive inspection equipment	All motors, bearings, controllers, couplings, drivers, encoders, gears, slides, industrial computing hardware and software, etc.
	Disk drive testing equipment	
	Disk drive assembly equipment	

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## GENERAL INFORMATION ON OUR GROUP

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### AWARDS AND ACCOLADES

Our commitment to our customers is evidenced by the following awards / commendation we received:

Nature of award	Awarded by	Year of award	Expiry date
Outstanding Performance as a Wonderware distributor	Wonderware Corporation	1999	N.A
100% Achievers Award	Wonderware Corporation	2000	N.A
1st position for year to year turnover growth rate (China)	Maxon Motor Ag	2000	N.A.
2nd position for year to year turnover growth rate (China)	Maxon Motor Ag	2002	N.A
ISO 9001:2000	International Organisation for Standardisation	2003	18 August 2006
Maxon Golden Sales Award	Maxon Motor Ag	2003	N.A
3rd position for year to year turnover growth rate	Maxon Motor Ag	2003	N.A
Outstanding Sales Increase in our Strategic Market Fields (China)	Maxon Motor Ag	2003	N.A.
1st position for year to year turnover growth rate (China)	Maxon Motor Ag	2004	N.A.

### QUALITY ASSURANCE

We recognise the importance of maintaining high quality standards, especially in the performance, safety and functional aspects of all our motion control systems. We continuously strive to excel in providing the best and most appropriate motion control solutions with quality service that consistently meets or exceeds our clients' and regulatory requirements. To achieve our aim, we continuously enhance our focus on the needs and expectations of the customers, improve our operations and services, introduce the latest technology and products, develop our employees' skills, competency and commitment and establish strategic relationships with our business partners. Our quality objectives include, *inter alia*, less than 10 customer complaints per year, 99% on-time deliveries to customers, 100% customer satisfaction, resolve customer's issue within one trip, less than three incidents of wrong deliveries a year and less than three incidents of inferior quality products shipment per year.

#### Singapore

In Singapore, we have been awarded the ISO 9001:2000 certification in August 2003 for activities of trading, distribution, servicing and customisation of factory automation solutions. We have established a strict quality assurance and control system to ensure the consistency and quality of our products and services. We also adopt the following measures as part of our quality assurance system:-

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## GENERAL INFORMATION ON OUR GROUP

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**(a) In-coming quality assurance**

In relation to the procurement of motion control systems, we adhere strictly to a set of operating procedures and internal controls to ensure quality in the motion control components supplied and delivered to us. Incoming motion control components delivered by our suppliers undergo a sample inspection process conducted by our staff upon arrival at our premises. We also conduct appraisals for potential suppliers based on strict criteria such as a good historical track record. Our staff also conducts regular assessment of our suppliers based on their promptness in delivery and the quality of the products supplied.

**(b) In-process quality assurance**

In-process quality assurance is implemented throughout the assembly process of our motion control systems to ensure that defect is identified and corrected at an early stage. Our systems undergo a series of quality assurance tests such as an in-house simulation run to ensure that our motion control systems meet our customers' specifications.

**(c) Out-going quality assurance**

After the motion control systems have been assembled, they are subjected to another quality inspection before delivery to our customers. If the conditions of the motion control systems are found to be acceptable, they will be packed and labelled according to our strict internal packing standards and are then delivered to our customers.

**(d) Total quality management**

As part of our total quality management approach, our management has implemented continuous improvement processes for our assembly activities. These processes are designed based on customer and staff feedback to improve all aspects of our operations including internal controls that incorporate preferred financial practices and procedures such as inventory and accounts receivable management.

The assembly processes and quality system are subject to a yearly quality assurance audit to ensure compliance with ISO 9001:2000 standards. These include verification of adequate personnel training, proper maintenance and calibration of equipment.

Outside Singapore

Outside Singapore, our operations also aim to achieve the same standards achieved by our Singapore units.

Presently, most of our suppliers provide back to back warranty for their motion control components. We also place each motion control system which we assembly under test conditions before delivering our motion control systems to our customers.

After delivery and installation of our product, we will provide after sales service support to our customers to ensure our customers' satisfaction of our motion control systems which we sell to them.

### **MARKETING, SALES AND PROMOTION**

Our marketing and sales activities are carried out by each of our divisions and sub-divisions.

We adopt the following marketing strategies for our products and services provided by our Motion Control Division and our Industrial Computing Division:-

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## GENERAL INFORMATION ON OUR GROUP

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### (a) Advertising

We conduct a wide range of advertising and promotional programmes to promote our range of motion control and industrial computing systems. We advertise regularly in publications such as Yellow Pages, Computer Era, the GreenBook, Industrial Automation Asia, Industrial Automation News and Industrial Automation Directory. In addition, we send our in-house newsletters, containing information on our latest motion control and industrial computing systems, to all our customers regularly.

### (b) Participation in trade fairs

We participate regularly in international trade fairs to showcase our range of motion control and industrial computing systems as well as to gather more information on the latest motion control systems and industrial computing systems in the market so as to upgrade and expand our range of products. We have participated in trade fairs such as the following:-

Name of trade fair	Year
Globaltronics Metaltech in Kuala Lumpur	2004
Industrial Expo in Penang	2004
Beijing International Exhibition of Modern Factory/ Process Automation Technology and Equipment	2004
8th Wuhan International Industrial Automation and Equipment Fair	2005
6th Xinan Area Automation and Equipment Fair	2005
Intermach Show 2005 held in Bangkok	2005

In addition, we are scheduled to participate in many other trade fairs in 2005 in various countries such as the PRC, Thailand and Malaysia.

### (c) Sales and marketing staff

We have a committed sales and marketing team for each of our Motion Control Division and our Industrial Computing Division. As at the Latest Practicable Date, we have approximately 78 sales engineers of which 68 are in our Motion Control Division and 10 are in our Industrial Computing Division and we employ 1 marketing executive in Singapore and 2 marketing executives in the PRC to support their activities. Our sales engineers conduct regular meetings and presentations of our products to new and existing customers to secure new orders for our range of products, to maintain regular contact with our existing customers as well as to obtain feedback from our customers.

Our sales from repeat customers constitute approximately 77%, 78%, and 74% of our total turnover for FY2002, FY2003 and FY2004 respectively.

## CREDIT CONTROL POLICY

Our sales terms vary from letters of credit, trust receipts and cash to open account up to a maximum credit term of 60 days (for certain customers with good creditworthiness, we grant credit of up to 90 days, on a case-by-case basis).

As a Group, to minimise our credit risk, we generally conduct our transactions on cash terms. We only grant credit terms to our customers on a case by case basis. Before we grant credit terms to those customers, we would conduct company and credit risk searches on them and our sales department will project a sales forecast in respect of that customer. Our management will then review the relevant documents before deciding whether to grant credit terms to the customer.

## GENERAL INFORMATION ON OUR GROUP

Credit terms and credit limit are determined by management based on factors such as the issued and paid-up capital, sales volume, financial and business performance of the customer. The credit terms and credit limit are subject to review by the management in the course of our business dealings with our customers.

Bad debts written off amounted to approximately S\$64,000 and S\$130,000 in FY2003 and FY2004, respectively (we did not write off any bad debts in FY2002). Provision for doubtful debts amounted to approximately S\$2,000 and S\$34,000 in FY2003 and FY2004, respectively (we did not provide for any debts in FY2002). We do not have a general provision policy in respect of outstanding receivables. We would generally review the specific debts once they are more than 90 days old and the provision of specific bad debts is made on a case by case basis by management based on factors such as the likelihood of recovery of a particular debt, the credit standing of the customer and the customer's response to our follow-up on the outstanding debt. A provision will also be made if we institute legal proceedings to recover the debt. We do not make general provision for bad and doubtful debts.

Our debtors' aging for the last three financial years is as follows:

	FY2002		FY2003		FY2004	
	(S\$'000)	(%)	(S\$'000)	(%)	(S\$'000)	(%)
Within 30 days	1,379	22.8	4,232	33.1	3,004	40.2
31-60 days	1,548	25.6	3,072	24.0	1,890	22.9
61-90 days	1,276	21.0	2,328	18.2	1,025	12.4
Over 90 days	1,851	30.6	3,175	24.7	2,020	24.5
Total	6,054	100.0	12,807	100.0	8,239	100.0

Our debtors turnover for FY2002, FY2003 and FY2004 are as follows:-

Days	FY2002	FY2003	FY2004
Debtors turnover	84	88	72

Our debtor's aging profile and debtors turnover days had decreased as our Group instituted tighter credit control practices.

### STAFF TRAINING POLICY

Due to the technical nature of our business, the constant training of our staff is necessary. We provide in-house different knowledge training to our staff for the different product brands of motion control components that we use. We also provide software training for Wonderware, which involves applications, technical and after sales support, to ensure that our staff possesses the requisite skills and expertise for the operations of our business. The training sessions are conducted on a regular basis and are usually conducted in-house by our technical managers.

In addition, we also send our staff overseas for training by our suppliers whenever we are informed of such training courses.

Our training and development expenses for the last three financial years were insignificant as most of our staff training programmes are conducted in-house.



## GENERAL INFORMATION ON OUR GROUP

### INSURANCE

Our Group has effected a number of general policies for their major subsidiaries, which includes, workmen compensation policies for Servo Dynamics and SD Hong Kong, fire insurance in respect of our assets such as machinery and parts, goods and materials including finished and semi-finished products and buildings for our subsidiaries, Servo Dynamics, Portwell and Precision Motion, SD Suzhou, SD Thailand and our joint venture company Maxon Suzhou.

Our Directors believe that the above insurance policies are adequate for our operations.

As at the Latest Practicable Date, we have neither experienced any product recalls nor have we have experienced any product liability claims. While we are currently not aware of any motion control systems which we sell could infringe any product liability laws, we cannot be totally certain about this and we cannot assure you that the motion control systems which we sell will not infringe any product liability laws in the future.

### INTELLECTUAL PROPERTY

#### Trademark



We own the following registered trademark:-

Trademark	Country	Class	Trademark registration no.	Validity Period	Issued by
	Singapore	7	T05/01444F	11 February 2005 – 10 February 2015 <sup>(1)</sup>	The Intellectual Property Office of Singapore
	Singapore	9	T05/01445D	11 February 2005 – 11 February 2015 <sup>(1)</sup>	The Intellectual Property Office of Singapore
	Singapore	9	T05/07737E	10 May 2005 – 10 May 2015 <sup>(1)</sup>	The Intellectual Property Office of Singapore

Note:-

- (1) The validity period of the trademark may be extended by making the appropriate application to the Intellectual Property Office of Singapore.

We are in the process of applying for registration of the following trademark:-

<u>Trademark</u>	<u>Country</u>	<u>Class</u>	<u>Status</u>
	Singapore	42	Pending
	PRC	7 and 9	Pending

#### Notes:

Class 7 – applicable for inter alia machines and machine tools; motor and engines (except for land vehicles); machine coupling and transmission components (except for land vehicles).

Class 9 – applicable for inter alia data processing equipment; computers; scientific, nautical, surveying, photographic, cinematographic, optical, weighing, measuring, signalling, checking (supervision), life saving and teaching apparatus and instruments; apparatus and instruments for conducting, switching, transforming, accumulated, regulating or controlling electricity; apparatus for recording, transmission or reproduction of sound or images, magnetic data carriers, recording discs; automatic vending machines and mechanisms for coin-operated apparatus; cash registers, calculating machine, data processing equipment and computers; fire extinguishing apparatus.

Class 42 – applicable for inter alia scientific and technological services and research and design relating thereto; industrial analysis and research services; design and development of computer hardware.



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## GENERAL INFORMATION ON OUR GROUP

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Save as disclosed above, we do not own any registered trademark, patent or other intellectual property rights. We do not own nor are we dependent on any proprietary processes, registered trademark, patent or other intellectual property rights.

### MAJOR CUSTOMERS

The customers that accounted for five per cent. or more of our total revenue during each of the last three financial years are listed below.

Major Customers	Percentage of Total Revenue		
	FY2002	FY2003	FY2004
ASM Asia Ltd	2.2%	6.1%	7.7%
ASM Technology Singapore Pte Ltd	5.0%	7.1%	4.1%
Ever Technologies Pte Ltd	3.2%	8.6%	7.2%
Norelco Centreline Pte Ltd	3.7%	7.0%	5.8%

Our customer base consists of more than 2,000 customers as at the Latest Practicable Date and we are not overly dependent on any single customer.

To the best of our Executive Directors' knowledge, information and belief, ASM Asia Ltd ("ASM Asia") and ASM Technology Singapore Pte Ltd ("ASM Technology") are wholly owned by ASM Pacific Technologies Ltd which is listed on the Hong Kong Stock Exchange. Our Executive Directors also believe that ASM International N.V. ("ASM International"), which is listed on the Nasdaq and the Euronext Stock Exchange in Amsterdam holds a majority interest in ASM Pacific Technologies Ltd. ASM International is a supplier of semiconductor process equipment. ASM Asia's contribution rose throughout FY2002 to FY2004 mainly due to the cyclical upswing of the semiconductor industry which led to an increase in their business operations and a corresponding increase of demand for our products. ASM Technology's contribution rose between FY2002 and FY2003 mainly due to the cyclical upswing of the semiconductor industry which led to an increase in their business operations and a corresponding increase of demand for our products. The decrease of ASM Technology's contribution in FY2004 was mainly due to the cyclical downturn of the semiconductor industry that occurred in the second half of FY2004 which resulted in a decrease in demand for our products from ASM Technology.

Ever Technologies Pte Ltd is a subsidiary of AEM-Evertech Holdings Ltd, ("AEM-Evertech") which is a company listed on the SGX-ST. AEM-Evertech is engaged in the design and manufacture of automated equipment and parts used in semiconductor manufacturing process. Its contribution rose between FY2002 and FY2003 mainly due to the cyclical upswing of the semiconductor industry which led to an increase in their business operations and a corresponding increase of demand for our products. In FY2004, although their purchases from us increased in absolute terms, their contribution decreased in percentage terms, as our Group recorded higher revenue for that year.

Norelco Centreline Pte Ltd ("Norelco") is a contract equipment manufacturer engaged mainly in the manufacture of precision machining component, assembly and integration of equipment and automated assembly lines mainly for hard disk drive manufacturers and semiconductor equipment manufacturers. It is a subsidiary of Norelco UMS Holdings Limited, a company listed on the SGX-ST. Their contribution rose between FY2002 and FY2003 mainly due to an upswing in the hard disk industry which led to an increase in their business operations and a corresponding increase of demand for our products. Their contribution in FY2004 decreased mainly due to them experiencing a decrease in demand for our products.

Our Company has not entered into any contracts with our customers containing any term or condition which can materially affect our financial position.

None of our Directors or Substantial Shareholder and their associates has any interest, direct or indirect, in the abovementioned customers.

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## GENERAL INFORMATION ON OUR GROUP

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### MAJOR SUPPLIERS

The suppliers accounting for five per cent. or more of our total purchases during each of the last three financial years are listed below:

Major Suppliers	Percentage of Total Purchases		
	FY2002	FY2003	FY2004
Maxon Motor Ag	11.2%	11.8%	11.1%
Copley Controls Corporation	3.9%	7.8%	7.4%
Pacific Scientific	6.2%	5.8%	4.4%
W. Schneeberger Ag	8.3%	7.8%	2.1%
Yaskawa Electric (Singapore) Pte Ltd	5.8%	5.6%	7.2%

Maxon Motor Ag specialises in the development, manufacturing and sales of quality motion control drive components and systems under the trademark “Maxon Motor”. We have on 1 October 2004 renewed our agreement with Maxon Motor Ag in a three-year distributorship agreement, under which Maxon Motor Ag would renew our the exclusive rights to distribute Maxon Motor products in Singapore, Hong Kong, Thailand, Malaysia, the Philippines and Indonesia. The Group’s purchases from Maxon Motor had generally been consistent between FY2002 and FY2004.

Copley Controls Corporation (“Copley”) is a company based in the U.S. that is engaged in the business of power amplifiers and high performance motion control components. Copley delivers innovative OEM solutions for a wide range of industries including the semiconductor, life sciences, packaging and automated assembly/inspection. As most of our products purchased from Copley are sold to a Singapore-based customer that is engaged in the business of supplying semiconductor process equipment, the increase or decrease for our Group’s purchases between FY2002 and FY2004 would be consistent with our Group’s sales to this customer.

Pacific Scientific is a company based in Rockford, USA engaged in the business of the motor and drive industry. Pacific Scientific serves industries ranging from semiconductor, medical equipment and robotics, to fitness equipment and packaging systems, mail handling equipment and other specialty equipment. From FY2002 to FY2003 and from FY2003 to FY2004, although our purchases from them increased in absolute terms, their contribution decreased in percentage terms, as our Group recorded higher purchases for the following years.

W. Schneeberger Ag (“Schneeberger”) is a company based in Switzerland that is in the business of modern linear technology. As most of our products purchased from Schneeberger are sold to an American based customer (with operations in Singapore) that is engaged in the business of supplying test and assembly equipment, the increase or decrease for our Group’s purchases between FY2002 and FY2004 would be consistent with our Group’s sales to this customer. The amount purchased from Schneeberger from FY2002 to FY2003 increased in absolute terms as our Group increased our sales to this customer, corresponding to the cyclical upswing of the semiconductor industry that occurred during the second half of FY2003. However, the contribution in percentage terms decreased as our Group recorded higher overall purchases in FY2003. From FY2003 to FY2004, there was a decrease in both the percentage and absolute purchases from Schneeberger as our Group’s sales to this customer decreased. This was mainly due to the cyclical downturn of the semiconductor industry that occurred in the second half of FY2004.

Yaskawa Electric (Singapore) Pte Ltd (“Yaskawa”) is a supplier of AC Servo, Inverter Drives, FA Controllers, Robotics products in the South East Asia region. As most of our products purchased from Yaskawa are sold to a Singapore-based customer that is engaged in the business of supplying equipment used in the semiconductor manufacturing process, the increase or decrease for our Group’s purchases between FY2002 and FY2004 would be consistent with our Group’s sales to this customer. In FY2004, our increase in percentage terms for purchases from Yaskawa is matched by the increase of purchases by this customer in absolute terms.

## GENERAL INFORMATION ON OUR GROUP

In the past 3 financial years, our Company has not faced any major disruption or termination with our suppliers, which has materially affected our financial position.

In the past 3 financial years, our Company has not faced any failure by our suppliers in fulfilling our orders, thereby causing disruption to our business and operations, which materially affected our financial position.

Our Company has not entered into any contracts with our suppliers containing any term or condition which can materially affect our financial position.

Our suppliers normally grant us credit terms of up to 30 – 60 days.

None of our Directors or Substantial Shareholder and their associates have any interest, direct or indirect, in the abovementioned suppliers.

### INVENTORY MANAGEMENT

We review the inventory ledger periodically to identify any technologically obsolete inventories which would be provided for in full after review by our management. We would also provide in full any inventories that are more than five years old.

Our inventory level for the past three financial years together with the aggregate provisions for inventory obsolescence and write-offs are as follows:-

	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>
Inventory balance (S\$'000)	2,723	4,071	5,606
Provision for inventories (S\$'000)	–	87	45
Inventories written off (S\$'000)	57	38	55
As a percentage of inventory balance (%)	2.1	3.1	1.8

Our inventory turnover for the past three financial years are as follows:-

<b>Days</b>	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>
Inventory Turnover	62	43	46

### COMPETITION

We set out below the competitors for each of our business divisions who compete with us in the respective regions:

<b><u>Competitor</u></b>	<b><u>Region</u></b>
<b><u>Motion Control Division</u></b>	
Flexible Automation System Ltd.	Hong Kong
Go-well Technology Trading Co.	Hong Kong
Aims Industrial Supply Sdn Bhd	Malaysia
FA Controls Sdn Bhd	Malaysia
Factory Automation Co., Ltd	Thailand
Beijing E-Motion Control Equipment Co. Ltd	PRC
E-Drive System Co. Ltd	PRC
Shanghai Power Automation Device Co. Ltd	PRC
Step Servo (Shenzhen) Ltd	PRC
Elshin International Pte Ltd	Singapore
Plant & Mill Supplies Pte Ltd	Singapore
Ultra Automation Pte Ltd	Singapore
<b><u>Industrial Computing Division</u></b>	
Advantech Co. Singapore Pte Ltd	Singapore
Allied Solutions Pte Ltd	Singapore
Emerson Process Management Asia Pacific Pte Ltd	Singapore

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## GENERAL INFORMATION ON OUR GROUP

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### COMPETITIVE STRENGTHS

**(a) We possess strong design and development capabilities**

As at the Latest Practicable Date have engaged a dedicated team of 46 technical engineers, representing approximately 20% of the staff strength of our entire Group, which enable us to design, assemble and provide after sales service support for sophisticated motion control systems which we design for our customers.

Our ability to design, assemble and install sophisticated motion control systems for our customers allows us to establish a strong presence in the motion control systems industry, as customers with special needs rely on us to provide our customise motion control systems to satisfy their requirements.

**(b) Joint venture and alliances with our strategic partner Interelectric Ag**

We have a long term business relationship with our strategic partner, Interelectric Ag. Interelectric Ag, is the holding company of Maxon Motor Ag, our major supplier, and has operations in Europe, America and Asia, is one of the leading global supplier of high-tech drive components and systems. To the best knowledge of our Executive Directors, its achievements include providing NASA with the motor systems used on the NASA Mars Exploration Rover, which successfully landed on Mars in January 2004.

Interelectric Ag cooperates with us to sell and to create awareness for their products in the territories in which we operate. We have also entered into a joint venture with them to establish Maxon Suzhou, a company incorporated in the PRC engaged in the assembly of motion control systems containing “Maxon Motor” motion control components for sale in the PRC market through our liaison offices established in various parts of the PRC. We believe that our joint venture Maxon Suzhou with Interelectric Ag is a testament of our long-term commitment to continue our current business working relationship.

As such, our Directors believe that our strong business and working relationships with Interelectric Ag, will ensure our long-term access to their high quality motion control products which we use in the design and assembly of our motion control systems.

**(c) Strong business network in the Greater China and regional presence in growth markets**

We have subsidiaries and joint venture companies in Hong Kong and various cities in the PRC such as Suzhou, Chongqing, Shenzhen, Shanghai and Beijing. Our subsidiaries and joint venture companies in these various parts of the Greater China enable us to provide better support to our customers located in the Greater China and to meet the needs of our Greater China customers in a more efficient manner. In addition, our business network covers other major cities in the PRC, such as Mianyang, Shenyang, Xi'an, Harbin, Fuzhou, Chengdu, Guangzhou and Wuhan. As part of our expansion plans, we will continue to develop a wide distribution network in the Greater China. Our sales to our Greater China customers form approximately 23.9%, 28.6% and 35.2% of our total revenue for FY2002, FY2003 and FY2004 respectively.

In addition, we have established subsidiaries in Thailand and Malaysia, a joint venture company in Malaysia and associated companies in the Philippines and Singapore, which allow us to tap into the regional demand for motion control systems and industrial computing systems. As these countries are still in initial stage of development, our Directors believe that the growth potential in demand for our motion control systems and industrial computing systems is great.

**(d) Diverse supplier base and wide range of products**

We obtain our products through our network of more than 500 suppliers. As such, we are not overly dependent on any single supplier for our products. Our 5 major suppliers supply a total of 35.4%, 38.8% and 32.2% of our total product purchases for FY2002, FY2003 and FY2004 respectively.

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## GENERAL INFORMATION ON OUR GROUP

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We offer a wide and comprehensive range of motion control systems containing components such as servo motors and drives, stepper motors and drives, linear bearings, Wonderware software, mechanical components, LCD monitors and industrial computing components which allow us to provide integrated solutions to our customers to meet their motion control and industrial computing needs. We are also constantly searching for newer and more advanced motion control and industrial computing components in addition to the solutions provided to meet our customers' changing needs.

With our diverse range of products, we are able to offer our customers a wide range of integrated solutions to meet their requirements.

Our wide range of motion control and industrial computing components are sourced from our extensive pool of suppliers and we are not reliant on any single supplier for any of our products motion control components and industrial computing components.

**(e) Diverse customer base**

As at the Latest Practicable Date, we have a large customer base of more than 2,000 customers who have purchased our motion control and industrial computing systems. These customers, some of which are SMEs, MNCs and governmental bodies, are from various industries, such as the semiconductor, general automation, manufacturing and hard disk industries. As a result, we provide a wide and diverse range of motion control systems and industrial computing systems to these customers. Our large customer base which spreads across various industries and the wide range of motion control systems and industrial computing systems which we offer reduces our exposure to a downturn in any particular industry.

**(f) Established track record**

The history of our Group dates back to 1987. As at Latest Practicable Date, we have established and maintained good relationships with our customers located in Singapore, the PRC, Hong Kong, Thailand, Malaysia and the Philippines, amongst others. Approximately 80% of our existing customers are repeat customers and our customer base has been expanding by an average of between 10% and 20% yearly since 1987.

**(g) Experienced management team**

Our management team comprises our Managing Director and President, Teo Cher Koon, our Executive Director and Senior Vice President – PRC Operations, Kong Deyang and our Executive Officers.

Our Managing Director and President, Teo Cher Koon has more than 20 years of experience in the motion control and industrial computing industries. He is well versed on the technical know-how of motion control systems and possesses extensive knowledge of the business of motion control and industrial computing products.

Our Executive Director and Senior Vice President – PRC Operations, Kong Deyang, is in charge of our PRC operations has extensive hands on experience gained from his years as a R&D engineer in a nuclear research facility and as a sales manager involved in the design, development, manufacture and business development of computerised quilting machines in the PRC. He possesses a blend of both the necessary technical skills and business experience and has contributed to the growth of the PRC operations and business of the Group since 1995.

Most of our Executive Officers has, on an average, more than 8 years experience in the motion control and industrial computing industries. Our management team is supported by a pool of skilled engineers and technicians, who form part of our total solutions and integrated system teams and have contributed significantly to our rapid growth in sales over the last three financial years.

## GENERAL INFORMATION ON OUR GROUP

### PROPERTIES AND FIXED ASSETS

We currently own the following properties: -

Description and Location	Gross Area (Approximately)	Use	Encumbrance
No. 85, Genting Lane #05-01A Guan Hua Warehouse Building Singapore 349569	1,000.00 sq. ft.	Leased out to unrelated third party	Mortgaged for banking facilities
No. 85, Genting Lane #05-01 Guan Hua Warehouse Building Singapore 349569	1,800.00 sq. ft.	Leased out to unrelated third party	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-29 KB Industrial Building Singapore 416175	5,059.00 sq. ft.	Office, workshop and warehouse	Mortgaged for banking facilities
No. 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175	5,059.00 sq. ft.	Office, workshop and warehouse	Mortgaged for banking facilities
H.S.(D) 224335 Lot No. PTD 41692 Mukim Senai-Kulai District Johore Malaysia	3,000.00 sq. ft.	Currently unoccupied	Charged to secure credit facilities
4 Rai and 15 Square Wah (6,460 Square Metre), title deed number 37395 Bangkaew (Samrong Nok District) Bangplee (Prakanang, Samutprakarn Province)	6,460.00 sq. m	Office, workshop and warehouse	Mortgaged for banking facilities

We currently lease the following properties: -

Location	Use	Floor Area (Approximately)	Tenure	Lessor	Annual rental
<b><u>Singapore</u></b>					
105 Tampines Road #06-01/02 Singapore 535127 <sup>(1)</sup>	Office, workshop and warehouse	1,782.00 sq.ft.	1 January 2004 to 31 December 2005	Wing Tai Holdings Limited	S\$22,453
No. 10 Kaki Bukit Road 1, #01-37 KB Industrial Building Singapore 416175 (Partial)	Office, workshop and warehouse	2,242.00 sq.ft.	1 September 2005 to 31 August 2006	Dirak Asia Pte Ltd	S\$20,400



## GENERAL INFORMATION ON OUR GROUP

Location	Use	Floor Area (Approximately)	Tenure	Lessor	Annual rental
No. 10 Kaki Bukit Road 1 #01-40 KB Industrial Building Singapore 416175	Office, workshop and warehouse	5,059.00 sq.ft.	15 July 2005 to 14 July 2007	Malayan Banking Berhad	S\$48,456
<b><u>The PRC</u></b>					
Unit 317, 3 <sup>rd</sup> Floor, Office Building, No.80 Xinling Road, Shanghai Waigaoqiao Free Trade Zone, the PRC <sup>(2)</sup>	Liaison office	53.15 sq.m	20 October 2005 to 19 October 2006	上海市外高桥保税区 三联发展有限公司 (Shanghai Waigaoqiao Free Trade Zone Sanlian Developing Co., Ltd)	RMB25,000
No. 12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC (Partial)	Office, warehouse and workshop	510.61 sq.m	20 August 2001 to 20 August 2006	苏州新创建设发展 有限公司 (Suzhou Xinchuang Construction Development Co., Ltd.)	RMB98,038
Unit 911, No. 2240, Pudong South Road Shanghai, the PRC <sup>(2)</sup>	Liaison office	48.70 sq.m	10 July 2004 to 9 April 2007	上海金伴投资管理 有限公司 (Shanghai Jinban Investment Management Co., Ltd.)	RMB15,600
Unit 901, No. 2240, Pudong South Road Shanghai, the PRC <sup>(2)</sup>	Liaison office	85.70 sq.m	10 July 2004 to 9 April 2007	上海金伴投资管理 有限公司 (Shanghai Jinban Investment Management Co., Ltd.)	RMB28,800
Unit 906, No. 2240 Pudong South Road, Shanghai, the PRC <sup>(2)</sup>	Liaison office	71.90 sq.m	24 October 2004 to 9 April 2007	上海金伴投资管理 有限公司 (Shanghai Jinban Investment Management Co., Ltd.)	RMB26,400
No. 12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC (Partial)	Office, warehouse and workshop	447.00 sq.m	20 August 2001 to 20 August 2006	苏州新创建设发展 有限公司 (Suzhou Xinchuang Construction Development Co., Ltd.)	RMB85,884



## GENERAL INFORMATION ON OUR GROUP

Location	Use	Floor Area (Approximately)	Tenure	Lessor	Annual rental
Hualin Road No. 294 Zonghe Building Level 2 Unit 201-202, the PRC	Liaison office	60.00 sq.m	10 October 2003 to 10 October 2006	福建省化肥农药 工业公司 (Fujian Province Fertilizer and Pesticide Industry Industrial Co., Ltd)	RMB15,600
Erhuan Road, Level 5 Unit 508, Jin Niu Trade Building, Chengdu, the PRC	Liaison office	40.02 sq. m	8 June 2004 to 8 June 2007	Chen Jicheng	RMB10,080
Unit 1126, Haiyang Shiyou Building, No. 168 Jiang Nan Da Dao Central, Guangzhou, the PRC <sup>(2)</sup>	Liaison office	37.80 sq.m	15 September 2005 to 14 September 2006	南海东部石油广州 基地公司 (South Sea East Oil Guangzhou Ji Di Co., Ltd)	RMB31,752
Unit 422-425 East 4 <sup>th</sup> Floor, No. 4 Building, Saige Technology Park, Huaqiang North Road, Futian District, Shenzhen, the PRC	Office, warehouse and workshop	218.00 sq.m	9 June 2005 to 8 June 2006	深圳市雷声实业 发展有限公司 (Shenzhen Leisheng Real Property Developing Co., Ltd.)	RMB162,192
No. 9, 13 <sup>th</sup> floor, Yulong Building, Mianyang, the PRC <sup>(2)</sup>	Liaison office	50.28 sq.m	21 February 2005 to 20 Feb 2006	绵阳宇隆地产开发 有限公司 (Mianyang Yulong Real Estate Developing Co., Ltd)	RMB11,460
Office unit at Sanchuan Building, Beijing <sup>(2)</sup>	Liaison office	56.00 sq.m	8 May 2005 to 7 May 2006	北京计算机三厂 (Third Computer Factory of Beijing)	RMB53,144
No. 2 Nanping West Road Langgao Kaiyue Building Tower B Unit B2-31, Chongqing, the PRC	Office, warehouse and workshop	112.69 sq.m	20 May 2005 to 19 May 2007	重庆浪高凯悦物 业管理有限公司 (Chongqing Langgao Kaiyue Property Management Co. Ltd)	RMB60,960
Room 306, 307-309 and 311, No 26 North Third Circle East Road, Chaoyang District, Beijing, the PRC <sup>(2)</sup>	Liaison Office	90.00 sq.m	20 June 2005 to 19 June 2006	Beijing Jinxin Hotel	RMB106,720
Xi'an International Trade Centre Office Level 28, Unit 05, the PRC	Liaison Office	43.73 sq.m	1 June 2005 to 31 May 2006	Yang Huijun	RMB20,990
Room 407-409 No. 26 North Third Circle East Road Chaoyang District Beijing, the PRC <sup>(2)</sup>	Liaison office	40.0 sq.m	1 September 2005 to 31 May 2006	Beijing Jinxin Hotel	RMB46,720

## GENERAL INFORMATION ON OUR GROUP

Location	Use	Floor Area (Approximately)	Tenure	Lessor	Annual rental
Unit 104B, 1 <sup>st</sup> Floor 2 <sup>nd</sup> Office Building, No. 106, Xinling Road, Shanghai Waigaoqiao Free Trade Zone, the PRC <sup>(2)</sup>	Liaison office	23.55 sq.m	1 December 2004 to 30 November 2005	上海市外高桥保税区三联发展有限公司 (Shanghai Waigaoqiao Free Trade Zone Sanlian Developing Co., Ltd.)	RMB23,000
Unit 104B, 1 <sup>st</sup> Floor 2 <sup>nd</sup> Office Building, No. 106, Xinling Road, Shanghai Waigaoqiao Free Trade Zone, the PRC <sup>(2)</sup>	Liaison office	23.55 sq.m	1 December 2005 to 30 November 2006	上海市外高桥保税区三联发展有限公司 (Shanghai Waigaoqiao Free Trade Zone Sanlian Developing Co., Ltd.)	RMB25,000
<b><u>Thailand</u></b>					
50/37-38 Moo 9 Soi Wadnamdang Srinakarin Road Bangkaew Sub-district, Bangplee District Samutprakarn 10540 Thailand <sup>(3)</sup>	Office, warehouse and workshop	4,500.00 sq.ft.	15 May 2003 to 15 May 2006	Udom Warasatian and Srisamphan Warasatian	THB360,000
<b><u>Malaysia</u></b>					
No 17 Solok Kekabu 1, Permatang Damar Laut, 11960 Batu Maung, Penang, Malaysia	Office, warehouse and workshop	2,000.00 sq.ft.	15 December 2004 to 14 December 2007	Lai Gim Thiam	RM20,400
No. 9-2 Highway Centre, Jalan 51/205, 46050 Petaling Jaya Selangor, Malaysia	Office, warehouse and workshop	1,000.00 sq.ft.	1 October 2004 to 30 September 2006	Petrotek Sdn. Bhd.	RM18,000
No. 15A, Jalan Rosmerah 2/8, Taman Johor Jaya, 81100	Office, warehouse and workshop	1,000.00 sq.ft.	1 July 2004 to 30 June 2006	Lai Yew Seon	RM6,360
<b><u>Hong Kong</u></b>					
Room 4, 5/F, Mega Trade Centre 1 Mei Wan Street, Tsuen Wan, N.T., Hong Kong	Industrial and trade use	1,570.00 sq.ft.	16 January 2005 to 15 January 2007	Ailec Holdings (H.K.) Ltd	HK\$144,000

**Notes:-**

- (1) We are currently in the midst of negotiating with the landlord for a larger premise.
- (2) We have not registered the lease agreements in respect of these properties with the relevant lease registration authorities. The failure to register a lease agreement with the relevant lease registration authorities will not affect the validity of the lease agreement but the lease agreement will not be good against a third party if this third party seeks to enforce its registered lease agreement in respect of the property. In the event that a third party enforces a registered lease agreement against any of the affected properties, we may be required to relocate our operations. Our Directors have confirmed that, in the event that we have to relocated, it is not difficult for our operations to relocate to another premise near the affected property at a rental that will not be materially higher than the current rental rates our Group is enjoying. Our Directors have also confirmed that there will not be any disruption to our operations and have estimated that the costs of relocation (excluding the rental) for an affected property to be approximately S\$10,000. Please refer to the section entitled "Risk Factors" in this Prospectus for further details.

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## GENERAL INFORMATION ON OUR GROUP

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- (3) We rent this property from our Executive Officer, Udom Warasatian. Please refer to the section entitled “Interested Person Transaction” in this Prospectus for further details.

There are no regulatory requirements that may materially affect our Group’s utilisation of tangible fixed assets.

### **ASSEMBLY FACILITIES**

Our assembly facilities are located in Singapore, Thailand, the PRC and Malaysia. For further details on our assembly facilities, please refer to the section entitled “Properties and Fixed Assets” in this Prospectus.

#### **Singapore**

Servo Dynamics houses a technical centre, with a floor area of approximately 3,315 sq.ft., to carry out activities such as training, servicing and assembly of motion control systems and industrial computing hardware and software.

Our Group has an assembly and test facility with a floor area of approximately 3,315 sq.ft..

#### **Thailand**

1,001 sq.ft. of SD Thailand’s leased premises is used for assembly and laboratory testing of motion control systems. We also have plans to expand the assembly facilities located in Thailand and we have acquired a plot of land in Thailand on 10 August 2005 for this purpose. The construction of the facility is expected to commence in February 2006 and completed in August 2006. The estimated cost of construction is approximately THB9,000,000 (S\$375,000) of which 60% will be financed by a bank loan and the rest using our internal source of funds. Please refer to the section “Capitalisation and Indebtedness” of this Prospectus for further details.

As motion control systems are largely customised, it is difficult to estimate with accuracy the increase in production capacity. However, we expect the increase of production capacity to give our subsidiary SD Thailand opportunities to increase its revenue generated, as we would be able to meet higher volumes of orders from our customers with the expansion of our assembly facilities.

#### **PRC**

SD Suzhou, located in the Suzhou New District, has an electronic installation warehouse, mechanical installation warehouse and machine shop with an aggregate area of approximately 6,000 sq.ft.. We intend to expand the facilities for our mechanical installation warehouse and machine shop.

#### **Malaysia**

SD Malaysia, located in Penang has assembly facilities of approximately 301 sq.ft..

### **Capacity and Utilisation**

As our Motion Control Division is involved in the assembly of complex components into functional modules (motion control systems) for machines. Due to the sophisticated nature of the motion control systems, the assembly processes usually differ significantly for different motion control systems. In addition, the installation process for motion control systems will also differ for different machines. As such, it is not meaningful to calculate our capacity for the assembly of the motion control systems.

As at the Latest Practicable Date, our business and profitability are not materially dependent on any new assembly process. We may in future, depending on our requirements, modify our assembly process.

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## GENERAL INFORMATION ON OUR GROUP

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### LICENCES AND PERMITS

We have obtained the necessary business licences for our day to day business operations. Save as disclosed in the section entitled “Risk Factors” in this Prospectus we are not subject to any governmental regulations in countries where we operate, other than those generally applicable to companies and businesses in these countries, which will have a material effect on our business operations. Our Directors confirm that other than the usual approvals, licences and permits required for ordinary business operations in the various jurisdictions in which we operate, no other specific approval, licence or permit is required for our business operations.

As at the Latest Practicable Date, the above licences have not been suspended or revoked. To the best of our Directors’ knowledge and belief, our Directors are not aware of any facts or circumstances which would cause the suspension or revocation or affect the renewal of the abovesaid licences by the relevant authorities.

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## GOVERNMENTAL REGULATIONS

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### GOVERNMENTAL REGULATIONS

#### PRC

A summary of the relevant PRC laws and regulations have been set out in Appendix C of this Prospectus.

#### MALAYSIA

##### **Exchange Control**

Under the current Exchange Control Notices of Malaysia issued by Bank Negara Malaysia (“BNM”), there is no restriction on repatriation of funds by way of dividends by foreign investors, subject to the applicable reporting requirements. To date, we have not experienced any difficulties in importing or exporting capital and remitting dividends, interest and other payments to and from Malaysia. Our Directors do not expect any difficulties on such repatriation or remittance in the future, unless there are changes to the present exchange controls in Malaysia.

##### **Foreign Investment Committee (“FIC”)**

The Malaysian FIC regulates both foreign and local equity participation in Malaysian investments and companies. The FIC has set out certain guidelines governing the acquisition of assets or interests, mergers and takeovers of companies to ensure Malaysian participation in ownership and control, thereby deriving economic benefits to Malaysia.

Amongst others, the FIC’s guidelines provide that FIC’s approval is required in the event of any proposed acquisition of interest of a local company or business in Malaysia by any means which results in the transfer of ownership or control to foreign interests or any proposed acquisition of interests by any foreign interest of 15% or more of the voting rights of any local company or business in Malaysia. According to current FIC guidelines, conditions to be imposed include, among others:-

- (a) companies which do not have any Bumiputra equity or having less than 30% Bumiputra equity, to increase the Bumiputra equity to at least 30% within a stipulated time-frame. The remaining equity shareholding can be held either by local interest, foreign interest or both;
- (b) companies owned by foreign interest with paid-up capital of less than RM250,000 will be required to increase the share capital to at least RM250,000 within 6 months from the date of FIC’s approval letter; and
- (c) companies must, to the best of their ability, recruit and train Malaysians so as to reflect the country’s population composition at all levels of employment.

The FIC guidelines are executive policies and do not have the force of law. There are also no statutory penalties for non-compliance with these guidelines. However, non-compliance with the FIC guidelines may have practical consequences since application for approvals or licences to certain regulatory bodies in Malaysia may require the prior approval of the FIC or the FIC guidelines to be complied with. Please refer to the section entitled “Risk Factors” in this Prospectus for further information.

#### THAILAND

##### **Exchange Controls Act**

Under Thai law, SD Thailand, as a Thai private limited company, is required to retain at least 5% of its annual profits arising from the business as a legal reserve fund at each dividend distribution, and it may declare only 95% of its annual profits as dividends. However, if SD Thailand’s legal reserve fund is equal to 10% or more of its capital, all of its annual net profit may be declared as dividends, provided that there are no other reserve funds set aside or such net profit is required to be utilised for other purposes.

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## GOVERNMENTAL REGULATIONS

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SD Thailand will also be subject to the Exchange Controls Act of Thailand (the “ECA”) which regulates inward and outward remittances of Thai Baht and foreign currencies and other foreign exchange transactions. The Bank of Thailand has the power to delegate certain powers to its authorised agents (being authorised banks, companies and persons) which includes commercial banks in Thailand. Certain foreign exchange transactions may be immediately approved by the authorised agent. For those beyond their authority, the Bank of Thailand’s approval is still required.

Subject to certain legal procedures to be complied with, the ECA does not restrict the remittance of dividends, investment funds, profits, loan repayment and interest payment thereon out of Thailand, after settlement of all applicable taxes in Thailand. Equally foreign currency may be remitted into Thailand, but such foreign currency must be sold or exchanged into Thai Baht, or deposited in a foreign currency account with an authorised bank or company, within seven days from the date of receipt or entry into the country. The relevant application form together with the relevant supporting documents, if any, must be submitted to an authorised agent for each transaction involving the sale, exchange or deposit of foreign currency to establish the legitimacy of the transaction before any foreign currency is purchased.

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## PROSPECTS AND FUTURE PLANS

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### PROSPECTS

#### Growth of the Asian economies

For the past two decades, Asian economies such as Japan, Korea, Thailand, Taiwan, Hong Kong, Malaysia and Singapore have become manufacturing hubs for various types of industry sectors in the world. In recent years, the PRC and India have also emerged as manufacturing hubs for the world economy. The goods produced in these Asian countries cover a wide range of industries ranging from hard disks, semiconductor, medical, automobiles, pharmaceutical, chemical, oil and gas industries, textile and others.

Our Directors believe that in tandem with the growth of the Asian economies, demand for motion control and industrial computing systems will increase, as manufacturers strive to increase their production output as well as improve the quality and the cost competitiveness of their products.

#### (a) Growth in the PRC market

The PRC market has consistently performed better than world economy for the past decade and its growth is expected to continue for the foreseeable future.

We have been active in the PRC market since 1995. Since then, we have established subsidiaries, joint venture and associated companies in the PRC in cities such as Suzhou, Chongqing, Shenzhen, Shanghai and Beijing and we also conduct business activities in major cities in the PRC, such as Mianyang, Shenyang, Xi'an, Harbin, Fuzhou, Chengdu, Guangzhou and Wuhan. Our Directors are of the view that there is great potential in the growing PRC market for motion control systems and industrial computing solutions. As the PRC continues to grow as a manufacturing hub for the world economy, its demand for motion control and industrial computing systems are expected to increase. Our Directors are of the view that this forward trend will result in an increased demand for the motion control and the industrial computing systems which we offer.

#### (b) Growth in the Thai market

Since 2000, we have been active in the Thai market through our subsidiary SD Thailand, which we have established to design, assembly and sell our motion control systems to the Thai local market. Our Directors believe that Thailand is an increasingly important manufacturing hub for automobiles, hard disk drives and semiconductor and also has an active market for textiles and food packaging. As Thai textile manufacturers face competition from manufacturers located in the PRC and India, our Directors believe that there is pressure on the Thai textile manufacturers to lower their production costs in order to compete effectively in the global market. Our Directors believe that this trend would increase the demand for our motion control systems as they would help our customers reduce their production costs through higher efficiency of their production equipment.

### Trends

In recent years, competition in the motion control and industrial computing industries has increased and prices for motion control and industrial computing systems have experienced downward pressures. We also experienced a decrease in demand for our motion control and industrial computing systems from the cyclical semiconductor industry for the first six months of FY2005 which we believe, is due to a slowdown in global demand for semiconductors. Due to this decrease in demand, we expect our Group's net profit to be lower year-on-year for the first half of FY2005 as compared with that of the previous corresponding half-year. Assuming that there is no significant decrease in demand for our motion control and industrial computing systems from current levels, our Directors (as of the Latest Practicable Date) remain confident of the prospects of our Group for FY2005. For the past three financial years, cost of our motion control components was relatively stable and save for unforeseen circumstances, we do not expect the cost of our motion control components to fluctuate materially in the foreseeable future.



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## PROSPECTS AND FUTURE PLANS

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### Order Book

As at the Latest Practicable Date, we have an order book of approximately S\$7.50 million which is expected to be recognised in FY2005. Although we have already entered into these contracts with our customers, they may be subject to cancellation or deferrals. Hence our order book as of any particular date may not be indicative of our revenues for the succeeding period.

### FUTURE PLANS

#### (a) Acquisitions, Joint Ventures and Strategic Alliances

We entered into an agreement with a German company to establish a company in the PRC for the manufacture of motion control components. The German company will hold 25% of the registered capital of the PRC company upon establishment and has an option, within two years from the date of the establishment of the PRC company, to acquire a further 25% of the registered capital of the PRC company from MCG such that MCG and the German company will each hold 50% of the registered capital of the PRC company. The initial investment sum is approximately S\$257,000 and is expected to increase to a total of S\$1.00 million within a period of 2 years.

In addition, we have entered into an agreement with a Taiwanese company to invest an initial sum of approximately S\$150,000 to acquire a 19% stake in it by 31 December 2005. The Taiwanese company is engaged in the research and development and the manufacture of motion control components. We believe that the acquisition will give our Group access to new products, which will enhance the competitive edge of our Motion Control Division. This investment will be funded with the proceeds obtained through this Invitation.

We have also entered into an agreement with Goh Yiu Jin to acquire a 67% stake in a Singapore company known as JM Vistec System Pte Ltd, which is engaged in the supply of vision related products. Pursuant to the Agreement, our subsidiary MCG subscribed for 67% of the equity stake in JM Vistec for an aggregate consideration of S\$300,000. As at the Latest Practicable Date, the Company has been allotted and issued 67% of the equity stake in JM Vistec and has paid S\$100,000 for its subscription through the Company's internal source of funds. The remaining S\$200,000 would be paid with the proceeds obtained through this Invitation. The consideration sum of S\$300,000 agreed for the 67% equity stake in JM Vistec is based on a "willing buyer and willing seller" basis. Our Directors are of the view that the consideration sum of S\$300,000 represents a fair market value for the 67% equity stake in JM Vistec.

Through these acquisitions, joint ventures and strategic alliances, we hope to create opportunities for us to compete more effectively against our competitors by manufacturing our own motion control components and enhancing our technical abilities through design and development efforts.

We also intend to expand our business through acquisitions, joint ventures or strategic alliances with parties which we believe can add value to our existing business, strengthen our market position as well as to facilitate us in our expansion into new products or geographical markets. We are constantly exploring opportunities for acquisitions, joint ventures and/or strategic alliances. It is our intention that such business opportunities, if they arise, will be funded from our internal sources of funds. Should the opportunity arise, we will seek approval, where necessary, from our Shareholders and the relevant authorities as required by the laws and regulations of the country in which we intend to operate.

We intend to set aside approximately S\$1.50 million from the proceeds of the Invitation to fund such expansion plans.

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## PROSPECTS AND FUTURE PLANS

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**(b) To expand and develop our existing operations**

We have plans to expand and develop our operations in countries where we currently have a presence such as the PRC, Thailand and the Philippines. We intend to expand our sales network in these countries, through the establishment of more sales offices and increase our sales staff, to increase our sales activities. In addition, we intend to increase the paid up capital of SD Thailand by THB6.00 million (approximately S\$250,000) and to expand our assembly capabilities in the PRC and Thailand through the acquisition of more equipment. Our Directors are of the view that the expansion of our assembly facilities in the PRC and Thailand will enhance our product range and increase our efficiency to meet the requirements of our customers. Please refer to the section entitled “Assembly Facilities” in this Prospectus for our assembly facilities in the PRC and Thailand.

We intend to set aside approximately S\$1.00 million from the proceeds of the Invitation to fund such expansion plans.

**(c) To expand geographical coverage of our markets**

Currently, our principal markets are Singapore and the Greater China. In order to expand our customer base and sales and business networks, we have plans to expand our geographic coverage through the expansion of our businesses into new markets in Asia, including Indonesia, India and Vietnam. This would give us access to the customer base in these countries and allow us to establish new business networks in these countries. We intend to set aside approximately S\$500,000 from the proceeds of the Invitation to fund such expansion plans.

**(d) To establish an integrated computerised system for our operations**

We intend to set aside approximately S\$500,000 for the establishment of an integrated computerised system, namely Enterprise Resource Planning (“ERP”), for all our operations. The establishment of the ERP will facilitate our operations, including the accounting functions of our Group and the ordering of stocks, resulting in better management and better internal control. The ERP will allow us to have access to real-time inventory information thereby increasing our efficiency over the control of our inventory. We plan to complete the establishment of ERP for all our operations by 2006.

The ERP system will provide a platform for us to execute e-supply chain management with our suppliers and customers.

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## DIRECTORS, MANAGEMENT AND STAFF

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### DIRECTORS

Our Board of Directors is entrusted with the responsibility of the overall management of our Group.

The following table provides information regarding our Directors as at the date of this Prospectus.

<u>Name</u>	<u>Age</u>	<u>Residential Address</u>	<u>Designation</u>
Lim Siang Kai	49	26-A Jalan Haji Alias Singapore 268527	Chairman and Independent Director
Teo Cher Koon	46	37 Leith Park Singapore 547950	Managing Director
Kong Deyang	44	No. 7 Block 6, Dongfang Yuan, Xujiang Road, Suzhou, Jiangsu, PRC 胥江路东方苑6栋7号, 苏州, 江苏, 中国	Executive Director
Tay Gim Sin Leonard	36	9 Sin Ming Walk #01-04 Singapore 575578	Non-executive Director
Soh Beng Keng	51	126 Tai Keng Gardens Singapore 535407	Independent Director

Save that our Managing Director and President is the sole shareholder of our Substantial Shareholder Assetraise Holdings Limited, none of our Directors are related to each other or our Substantial Shareholder or Executive Officers.

Information on the business and working experience of our Directors is set out below:-

**Lim Siang Kai** is our Chairman and Independent Director and was appointed on 26 September 2005. He is currently the executive director of Golden 21 Investment Holdings Limited, a company listed in Hong Kong. Mr. Lim has over 20 years of experience in securities, private and investment banking and fund management. Between 1984 to 1988, he had joined NZI Merchant Bank (Singapore) Limited as an assistant director of corporate banking where he was overall in charge of the credit and marketing, investment and private banking. In 1988, he joined Kingvic Securities Investment Consulting Enterprise as its president. Kingvic Securities Investment Consulting Enterprise was registered with the Securities and Futures Commission of Republic of China as an authorised securities investment consultant to provide research, analysis or advice on matters related to securities investment. In 1992, Kingvic went on to establish Chronical Securities Investment Trust Co., Ltd, a fund management company with partners which were financial institutions such as Credit Commercial de France, France and OCBC Bank, Singapore, of which Mr. Lim was president from 1993 to 1994. Mr. Lim worked at Dexia Banque Internationale A Luxembourg (BIL) in Hong Kong between 1994 to 1996 as its chief representative. In 1996, he was employed by United Overseas Bank (UOB) as the general manager of its Xiamen Branch to run its China Banking operations. In 2001, he was relocated to the UOB head office, corporate banking division in Singapore. For the years 2002 to 2003, Mr. Lim had been providing financial consultancy services to Societe Generale, Singapore Branch.

Mr. Lim holds a Degree of Bachelor of Arts and Degree of Bachelor of Social Sciences with Honours from the University of Singapore which he obtained in 1980 and 1981 respectively, and a Masters degree in Economics from the University of Canterbury in 1983.

**Teo Cher Koon** is our Managing Director and President and was appointed on 28 December 2004. Mr. Teo joined 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

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## DIRECTORS, MANAGEMENT AND STAFF

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sourcing new products and technology and securing new customers for our Group. Before establishing our Group, he was a sales engineer in a local engineering product distribution company, K L Chua & Brothers Pte Ltd from 1981 to 1984 where he was responsible for the sales and marketing of power transmission products and was pursuing his degree at the National University of Singapore from 1984 to 1987.

Mr. Teo obtained a Bachelor Degree of Engineering (Mechanical) from the National University of Singapore in 1987 and a Technician Diploma in Mechanical Engineering from Ngee Ann Technical College in 1978.

**Kong Deyang** is our Executive Director and Senior Vice President – PRC Operations and was appointed on 26 September 2005. He 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 day-to-day operations of our PRC subsidiaries. Mr. Kong began his career in 中国核工业总公司国营二六七厂, a PRC government linked company involved in nuclear research and development (“R&D”) as supervisor and was later promoted to senior R&D engineer in 1982 in the same company (where he was involved in the R&D of high-speed cameras). From 1994 to 1995, he became a sales manager in the same company and was involved in design, development, manufacture and business development of CNC computerised quilting machines. From 1995 to 2001 he was the Vice General Manager for Maxon Suzhou and from 2001 until todate, he is the managing director for SD Suzhou and Maxon Suzhou where he was in charge of the day-to-day operations of the companies. Mr. Kong graduated from the Beijing Technical University in 1982 with a Degree 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.

**Tay Gim Sin Leonard** is our Non-executive Director and was appointed on 26 September 2005. He has over 10 years of financial management experience. He is currently the Chief Finance Officer of AGVA Corporation Limited, a company listed on the SGX-ST. Between 2003 and 2004, he was the manager in the Department of Assurance and Advisory of Deloitte and Touche, Singapore, where he led the audit of a variety of MNCs and initial public offerings. From 1999 to 2002, he was the manager in the department of Assurance Business Advisory Services in PricewaterhouseCoopers LLP in San Jose, California USA, where he led a variety of financial analysis and public accounting projects specialising in the technology sector, including several major financial audits, initial and secondary offerings and debt issuance. From 1996 to 1998, he was the assistant manager of the Department of Advisory and Business Services in Price Waterhouse (Singapore) (now known as PricewaterhouseCoopers (Singapore)) where he managed and directed several large public accounting projects. From 1994 to 1996, Mr. Tay was a senior auditor (Assurance) 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 holds a Degree of Bachelor of Business (Accounting) from Monash University obtained in 1995.

**Soh Beng Keng** is one of our Independent Directors and was appointed to our Board on 26 September 2005. 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 the Far East 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 2003, Mr. Soh was the director of finance of Heeton Management Pte Ltd. From 2003 to 2004, Mr. Soh was an executive director in charge of the finance functions of Heeton Holdings Limited (“Heeton”), a company listed in Singapore since 2003. 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 Degree of Bachelor of Commerce (Accountancy) from the Nanyang University in 1979.

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## DIRECTORS, MANAGEMENT AND STAFF

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The list of present and past directorships of our Directors over the last five years (excluding those held in our Company) is set out below:-

<b><u>Name</u></b>	<b><u>Present Directorships</u></b>	<b><u>Past Directorships</u></b>
Lim Siang Kai	<p><u>Group companies</u></p> <p>Nil</p> <p><u>Other companies</u></p> <p>Golden 21 Investment Holdings Limited Haojey Technofibre (China) Pte Ltd Haojey Technofibre Ltd Wise Guard Enterprises Limited</p>	<p><u>Group companies</u></p> <p>Nil</p> <p><u>Other companies</u></p> <p>Caramel Investment Pte Ltd Garden Field Development Pte Ltd Garden Field Investment (S) Pte Ltd I-Markets Management Ltd RNA Holdings Limited</p>
Teo Cher Koon	<p><u>Group companies</u></p> <p>ISDN Holdings Limited JM Vistec System Pte Ltd Leaptron Engineering Pte. Ltd. 麦柯胜电机国际贸易(上海)有限公司 (Maxon Electronic Machine International Trade (Shanghai) Co., Ltd.) 苏州钧和伺服科技有限公司 (Maxon Motor (Suzhou) Co., Ltd.) Motion Control Group Pte Ltd Portwell Singapore 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 苏州钧信自动控制有限公司 (Servo Suzhou Co., Ltd.)</p> <p><u>Other companies</u></p> <p>Assetraise Holdings Limited Dirak Asia Pte Ltd 苏州戴乐克工业锁具有限公司 (Dirak Suzhou Co., Ltd)</p>	<p><u>Group companies</u></p> <p>Nil</p> <p><u>Other companies</u></p> <p>Adlink Technology Singapore Pte Ltd Leaptron Technology Pte Ltd (Currently in the process of striking off) SDL Technologies Pte Ltd Taiwan Servo Dynamics Co. Ltd.</p>
Kong Deyang	<p><u>Group companies</u></p> <p>重庆钧智自动化仪器控制有限公司 (Chongqing Junzhi Automatic Instrument Control Co., Ltd.) 苏州钧和伺服科技有限公司 (Maxon Motor (Suzhou) Co., Ltd.) 苏州钧信自动控制有限公司 (Servo Suzhou Co., Ltd.)</p> <p><u>Other companies</u></p> <p>苏州戴乐克工业锁具有限公司 (Dirak Suzhou Co., Ltd) 北京德普勒科技有限公司 (Beijing Depule Technology Co., Ltd)</p>	<p><u>Group companies</u></p> <p>Nil</p> <p><u>Other companies</u></p> <p>Nil</p>

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## DIRECTORS, MANAGEMENT AND STAFF

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<b><u>Name</u></b>	<b><u>Present Directorships</u></b>	<b><u>Past Directorships</u></b>
Tay Gim Sin Leonard	<u>Group companies</u> Nil  <u>Other companies</u> AGVA Singapore Pte Ltd	<u>Group companies</u> Nil  <u>Other companies</u> Nil
Soh Beng Keng	<u>Group companies</u> Nil  <u>Other companies</u> Shengda (Group) Holdings Ltd	<u>Group companies</u> Nil  <u>Other companies</u> 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

### EXECUTIVE OFFICERS

An experienced and qualified team of Executive Officers is responsible for the different functions of our Group. The particulars of our Executive Officers are set out below: -

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Residential Address</u></b>	<b><u>Position</u></b>
Cheng Hock Kiang	37	7, Riverdale Crescent, #07-14 Singapore 545085	Vice President - Sales (Industrial Computing, Hardware)
Chow Ka Man	31	Flat D, 31/F, Block 5, Flora Plaza, Fanling, NT, Hong Kong	Vice President – Hong Kong Operations
Han Moo Juan	41	Block 221, Lorong 8 Toa Payoh #08-679 Singapore 310221	Vice President – Sales (Industrial Computing, Software)
Lau Choon Guan	40	Block 224 Simei Street 4 #06-94 Singapore 520224	Vice President - Sales (Motion Control)
Lim Bee Teng	29	Block 155 Yung Loh Road #04-04 Singapore 610155	Vice President - Finance
Sim Leong Seang	47	Block 505 Pasir Ris Street 52 #12-193 Singapore 510505	Vice President - Technical Support (Motion Control)
Udom Warasatian	41	12/32 M.1 Srinakarin Road, Bangkaew, Bangplee, Samutprakarn 10540 Thailand	Vice President – Thailand Operations
Wong Kwok Whye Peter	38	Block 450, Bukit Panjang Ring Road #04-585 Singapore 670450	Vice President - R&D

None of our Executive Officers is related to each other or to our Directors or Substantial Shareholder.



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## DIRECTORS, MANAGEMENT AND STAFF

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Information on the business and working experience of our Executive Officers is set out below:-

**Cheng Hock Kiang** is our Vice President – Sales (Industrial Computing, Hardware). He has been the sales engineer of our subsidiary 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.

**Chow Ka Man** is our Vice President – Hong Kong Operations and has been the managing director of our subsidiary 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.

**Han Moo Juan** is our Vice President – Sales (Industrial Computing, Software). He joined Servo Dynamics as a sales engineer in 1997 and has been with our Group ever since. Mr. Han is responsible for the sales and marketing activities our Group's products, negotiating and securing projects and orders from our customers and formulating new strategies to improve the sales and marketing activities of our Group. From 1994 to 1997, he was a director and sales manager with Abeltech Pte Ltd, a company engaged in the provision of services, solutions and trading in AC power related products, where he was responsible for the sales and marketing of 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, where he was responsible for the sales of electrical equipment. From 1987 to 1990, he was a service engineer with Gould Electronics Pte Ltd, a company engaged in the trading of control instrument, test measurement, medical equipment and power conditioner products, where he provided servicing and training for the use of the electrical equipment. 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.

**Lau Choon Guan** is our Vice President – Sales (Motion Control) and 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** is our Vice President – Finance and joined our Group in 2004. She is responsible for the financial matters of our Group including consolidation of accounts, managing reporting from our subsidiaries and audit of our Singapore subsidiaries and reviewing and implementing proper internal controls. Prior to joining our Group, Ms Lim was a financial accountant for the Asia and Middle East Division of Hotel Dynamics Group a group engaged in loyalty marketing for the hospitality industry where she was responsible for financial reporting to the head office in the USA and compliance matters of the group. From 2000 to 2003, she was an audit supervisor with Deloitte & Touche, Singapore where she planned audit engagements, supervised audit teams and led the audit of various public-listed companies and MNCs. From 1998 to 2000, she was an tax/audit assistant with Tan Wee Tin & Co, a local accounting firm where she was in charge of corporate and personal tax matters for a portfolio of clients. Ms Lim obtained a Degree of 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.



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## DIRECTORS, MANAGEMENT AND STAFF

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**Sim Leong Seang** our Vice President – Technical Support (Motion Control) joined our Group in 1992 and 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, a polythene bag production factory, where he was responsible for the efficient running of the production systems from 1979 to 1981. When Hipak Industries Pte Ltd was acquired by Lamipak Industries Pte Ltd, 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 Industries Pte Ltd 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 used in factory automation. Mr. Sim obtained a Diploma in Electronics Engineering from the French-Singapore Institute in 1986.

**Udom Warasatian** is our Vice President – Thailand Operations and has been the managing director of our subsidiary 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 a Degree of Bachelor of Engineering in Electrical Engineering from King Mongkut Institute of Technology in North Bangkok, Thailand in 1987.

**Wong Kwok Whye Peter** is our Vice President – R&D and also the general manager of our subsidiary, Leaptron and is responsible for developing corporate growth strategies of Leaptron. Mr. Wong has more than 13 years of 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, a company engaged in the distribution of industrial automation products, where he was responsible for the marketing and developing of its products in the South East Asia region. Before that he was an application manager of our subsidiary Servo Dynamics Pte Ltd from 1996 to 1999, where he was in charge of the development of the technical and training team for our “Wonderware” software programme. In 1996, he was an IT specialist with Vaggs Asia Pte Ltd, a company engaged in the provision of IT solutions and web application services, where he led a team of IT specialists. In 1995, he was also the head of R&D in Alpha Infotech Pte Ltd, a company engaged in the development of electronics products, where he led the development team in the research and development of TV tuner peripheral for computers. From 1989 to 1992 he was a customer service engineer in Conner Peripherals Pte Ltd, a leading hard disk manufacturer, where he was in charge of quality improvement procedures in the production facility. Mr. Wong obtained a Degree of 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.

The list of present and past directorships of each Executive Officer over the last five years is set out below:-

<b>Name</b>	<b><u>Present Directorships</u></b>	<b><u>Past Directorships</u></b>
Cheng Hock Kiang	<u>Group companies</u>	<u>Group companies</u>
	Portwell Singapore Pte Ltd	Nil
	<u>Other companies</u>	<u>Other companies</u>
	Nil	Nil
Chow Ka Man	<u>Group companies</u>	<u>Group companies</u>
	Servo Dynamics (H.K.) Limited	Nil
	<u>Other companies</u>	<u>Other companies</u>
	Nil	Nil

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## DIRECTORS, MANAGEMENT AND STAFF

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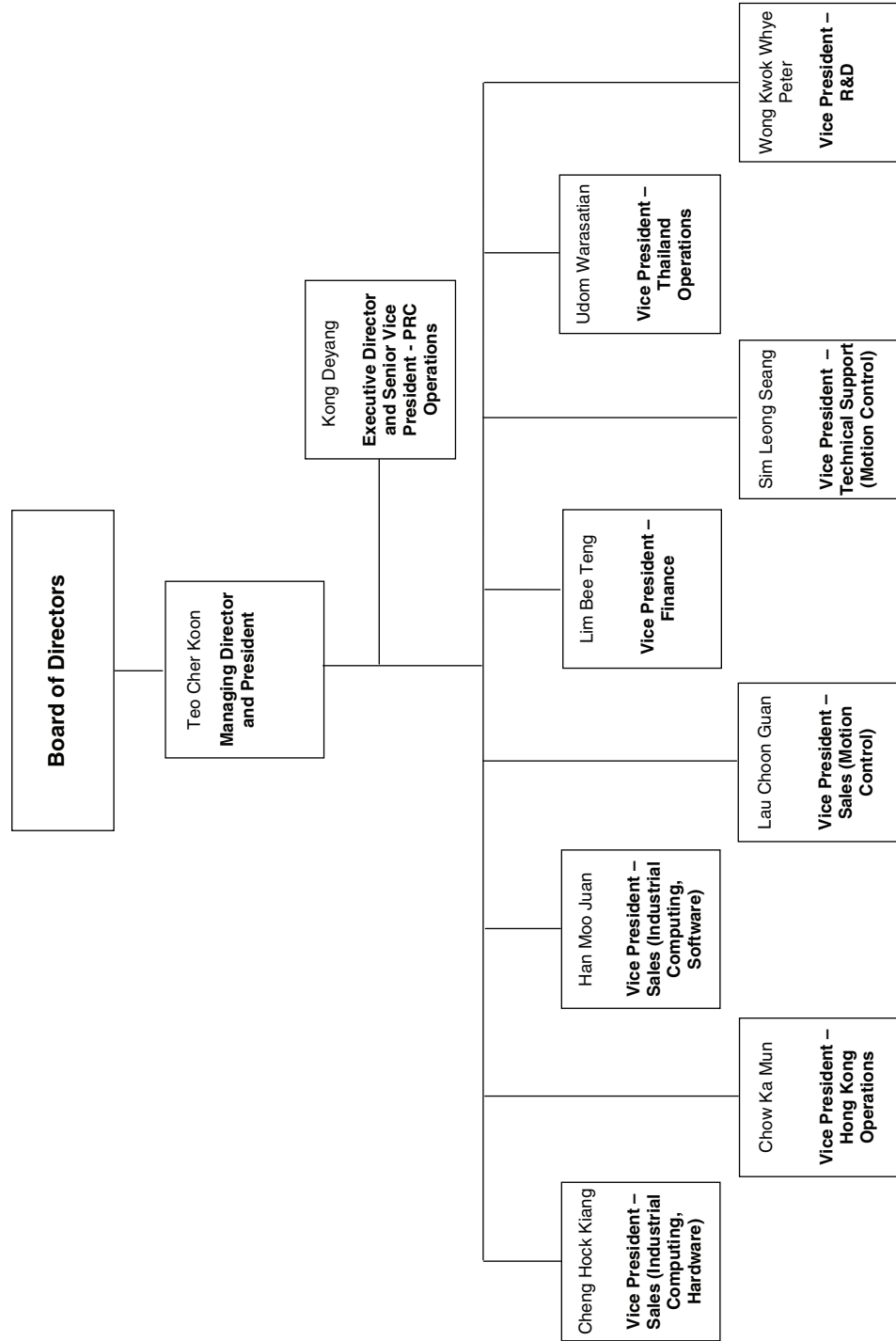
<b>Name</b>	<b><u>Present Directorships</u></b>	<b><u>Past Directorships</u></b>
Han Moo Juan	<u>Group companies</u>	<u>Group companies</u>
	Nil	Nil
	<u>Other companies</u>	<u>Other companies</u>
Lau Choon Guan	Albeltech Pte Ltd	Nil
	<u>Group companies</u>	<u>Group companies</u>
	Nil	Nil
Lim Bee Teng	<u>Other companies</u>	<u>Other companies</u>
	Nil	Nil
	<u>Group companies</u>	<u>Group companies</u>
Sim Leong Seang	Nil	Nil
	<u>Other companies</u>	<u>Other companies</u>
	Nil	Nil
Udom Warasatian	<u>Group companies</u>	<u>Group companies</u>
	Servo Dynamics (Thailand) Co., Ltd	Nil
	<u>Other companies</u>	<u>Other companies</u>
Wong Kwok Whye, Peter	Nil	General Engineering Projects Co., Ltd. TTI Engineering Co., Ltd.
	<u>Group companies</u>	<u>Group companies</u>
	Leaptron Engineering Pte. Ltd. Nyquist Asia Pte. Ltd.	Nil
	<u>Other companies</u>	<u>Other companies</u>
	Nil	Leaptron Technology Pte Ltd (Currently in the process of striking off)

To the best of our knowledge and belief, there are no arrangements or undertakings with our Substantial Shareholder, any customers, suppliers or others, pursuant to which any of our Directors and Executive Officers was appointed.

## DIRECTORS, MANAGEMENT AND STAFF

### OUR MANAGEMENT REPORTING STRUCTURE

The following chart shows our management reporting structure as at the date of this Prospectus:-



## DIRECTORS, MANAGEMENT AND STAFF

### DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

The remuneration<sup>(1)</sup> of our Executive Directors and top five key executives for services rendered to our Company and our subsidiaries on an aggregate basis and in remuneration bands<sup>(2)</sup> for each of the two most recent completed financial years and an estimated amount of remuneration to be paid for the current financial year are as follow

(a) Directors

Directors	FY2003	FY2004	Estimated FY2005
Lim Siang Kai	— <sup>(3)</sup>	— <sup>(3)</sup>	A
Teo Cher Koon	C	C	C
Kong Deyang	A	A	A
Tay Gim Sin Leonard	— <sup>(3)</sup>	A	A
Soh Beng Keng	— <sup>(3)</sup>	— <sup>(3)</sup>	A

(b) Key Executive Officers

Executive Officers	FY2003	FY2004	Estimated FY2005
Cheng Hock Kiang	A	A	A
Chow Ka Man	A	A	A
Han Moo Juan	A	A	A
Lau Choon Guan	A	A	A
Lim Bee Teng	— <sup>(3)</sup>	A	A
Sim Leong Seang	A	A	A
Udom Warasatian	A	A	A
Wong Kwok Whye Peter	A	A	A

**Notes:-**

- (1) Remuneration includes salary, bonus, CPF, directors' fee and benefits-in-kind. For the purpose of this estimation the bonus that our Executive Directors are entitled to as Performance Bonus has not been taken into account. Details of the Performance Bonus are set out under the section entitled "Service Agreements – Performance Bonus" in this Prospectus.
- (2) Remuneration bands:-
  - "A" refers to remuneration up to S\$250,000
  - "B" refers to remuneration from S\$250,001 to S\$500,000
  - "C" refers to remuneration from S\$500,001 to S\$750,000
- (3) Not under our appointment as at the relevant period.

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## DIRECTORS, MANAGEMENT AND STAFF

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### EMPLOYEES

As at the Latest Practicable Date, we had 223 full-time employees, of which 76 and 114, 3, 20 and 10 are located in Singapore, the PRC, Hong Kong, Thailand and Malaysia respectively.

Our employees are not unionised. The relationship between the management and the employee has been good and is expected to continue in the future. There have not been any past incidents of work stoppages or labour disputes, which affected our operations.

We do not employ a significant number of part-time employees. The geographical distribution of our full-time employees for our motion control and Industrial Computing Division for FY2002, FY2003, FY2004 were as follows:-

Territories	Number of Employees		
	FY2002	FY2003	FY2004
Singapore	67	67	78
PRC	42	74	79
Thailand	18	21	22
Malaysia	6	10	7
Hong Kong	3	3	3
<b>Total</b>	<b>136</b>	<b>175</b>	<b>189</b>

Function	Number of Employees		
	FY2002	FY2003	FY2004
Management	16	17	19
Finance and accounting	10	13	14
Technical engineers	27	33	42
Sales engineers	43	57	55
Sales administration and customer service	16	22	23
Warehouse and delivery	13	16	17
Office and IT administration	8	14	16
Marketing	3	3	3
<b>Total</b>	<b>136</b>	<b>175</b>	<b>189</b>

There has been no significant change in the number of employees between the Latest Practicable Date and the date of this Prospectus.

### Social Security Fund

Save for a basic contribution plan participated by our subsidiaries in the PRC, we have not set aside or accrued any amounts to provide for pension, retirement or similar benefits for any of our employees. The basic contribution plan is organised by the relevant local government authorities in the PRC and it comprises pension, unemployment insurance, medical insurance, maternity and work injury insurance whereby our subsidiaries in the PRC are required to make and have been making monthly contributions to these plans at the prescribed percentage of our employees' basic salary. Our Group has made all the necessary contributions. As at the Latest Practicable Date, 114 of our PRC employees have joined the basic insurance plan.

Our subsidiaries in the PRC have no obligation for the payments of retirement and other post-retirement benefits of employees other than the monthly contributions described above.

### Employment Funds

We also comply with and contribute to the relevant employment funds prescribed by law in respect of our staff who are based in the territories in which we operate.

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## DIRECTORS, MANAGEMENT AND STAFF

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### SERVICE AGREEMENTS

We have entered into separate service agreements (“Service Agreements”) with our Executive Directors, namely, Teo Cher Koon and Kong Deyang for an initial period of three years from the date of commencement, being the date of this Prospectus, of the Service Agreement (the “Initial Term”) and shall automatically expire at the end of the Initial Term unless renewed by our Company for such period as the Company may so decide. During the Initial Term, the appointment of the Executive Director with the Company may only be terminated by the Company. Upon renewal of the Service Agreement, the appointment of the Executive Director may be terminated at any time in accordance with the provisions of the Service Agreement or by either party giving to the other six months’ notice in writing of such intended termination, or in lieu of the said six months’ notice, an amount equivalent to six months’ salary based on the Executive Director’s last drawn salary. None of the Executive Directors will be entitled to any benefits upon termination of their respective Service Agreement.

The Service Agreement may be terminated at any time without any notice or payment in lieu of notice if, the Executive Director; (a) becomes prohibited by law from being or ceases to be a director of the Company for any reason whatsoever; (b) may be suffering from a mental disorder; or (c) is convicted of any criminal offence (save for an offence under road traffic legislation for which he is not sentenced to any term of immediate or suspended imprisonment) and sentenced to any term of immediate or suspended imprisonment.

The Service Agreement may be terminated by the Company in the event that the Executive Director commits certain events of default (comprising gross misconduct, breach of a material provision of the Service Agreement, breach of trust or dishonesty or if he becomes bankrupt or makes any arrangement or composition with his creditors) as described in his Service Agreement and upon such termination, the Executive Director shall not be entitled to claim any compensation or damages.

Under the Service Agreements, the Teo Cher Koon and Kong Deyang will each receive a monthly salary of S\$29,000 and S\$7,000 (exclusive of mandatory employee contribution by the Company) respectively. Teo Cher Koon will receive an annual wage supplement of one month’s salary upon the completion of each year of service with us and he is also entitled to be reimbursed for all expenses incidental to the use, maintenance, upkeep and repair of a car (to be provided by our Company), which includes, petrol charges, car park charges, electronic road pricing charges, road tax, motorcar insurance premiums and any other charges reasonably incurred in connection with such use. Under his Service Agreement, Teo Cher Koon shall also be provided with a golf club membership of his choice situated in Singapore. In addition to his monthly salary of S\$7,000, Kong Deyang will be receiving a monthly transport and housing allowance of S\$2,000 and S\$1,000 respectively.

All travelling and travel related expenses, entertainment expenses and other out of pocket expenses reasonably incurred by the Executive Directors in the process of discharging their duties on behalf of the Group will be borne by the Company.

The remuneration of Teo Cher Koon and Kong Deyang are subject to review upon the completion of the first year of service with the Company.

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## DIRECTORS, MANAGEMENT AND STAFF

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### Performance Bonus

Teo Cher Koon will be paid a performance bonus ("Performance Bonus"), which shall include mandatory employer contribution by the Company, based on our Group's audited consolidated profits before taxation and before Performance Bonus ("Profits") as follows:-

#### **Teo Cher Koon**

<b>The Group's audited consolidated profits before taxation and before Performance Bonus</b> <b>S\$</b>	<u>Bonus Payable to</u> <u>Teo Cher Koon</u>
Up to 5,999,999	7.0%
From 6,000,000 to 6,999,999	8.0%
From 7,000,000 to 7,999,999	9.0%
Above 8,000,000	10.0%

Kong Deyang will be paid a performance bonus based on our profits attributed to our PRC subsidiaries and our share of profits from our joint venture companies and associated companies in the PRC.

#### **Kong Deyang**

<b>The audited consolidated profits before taxation and before Performance Bonus of the subsidiaries, and our share of profits from our joint venture companies and associated companies in the PRC</b> <b>RMB</b>	<u>Bonus Payable to</u> <u>Kong Deyang</u>
From 3,000,000 to 4,999,999	3.0%
From 5,000,000 to 6,999,999	3.5%
From 7,000,000 to 8,999,999	4.0%
From 9,000,000 to 10,999,999	4.5%
Above 11,000,000	5.0%

Please refer to the section entitled "Directors, Management and Staff" in this Prospectus for details of the responsibilities of the Executive Directors in our Group. Under their leadership, the operations of our Group have developed and expanded rapidly. We consider their skill, expertise and continuing contribution to our Group to be invaluable and vital to the future growth of the Group and awarding them with Performance Bonus will serve as a reward as well as to motivate them to continue to contribute to the growth of our Group.

Save as disclosed above, there are no existing or proposed service agreements between our Company and any of our Executive Directors.

Save for CPF contributions, we have not set aside or accrued any amounts to provide for pension, retirement or similar benefits.



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## CORPORATE GOVERNANCE

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### BOARD PRACTICES

Every Director shall retire from office once every three years and for this purpose, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that no Director holding office as Managing Director or a person holding an equivalent position shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. A retiring Director shall be eligible for re-election.

### NOMINATING COMMITTEE

Our Nominating Committee comprises Soh Beng Keng, Lim Siang Kai and Teo Cher Koon. The Chairman of the Nominating Committee is Soh Beng Keng. Our Nominating Committee will be responsible for (a) re-nomination of our Directors having regard to the Director's contribution and performance, (b) determining annually whether or not a Director is independent and (c) deciding whether or not a Director is able to and has been adequately carrying out his duties as a Director. The Nominating Committee will decide how the Board's performance is to be evaluated and propose objective performance criteria, subject to the approval of the Board, which address how the Board has enhanced long-term shareholders' value. The Board will also implement a process to be carried out by the Nominating Committee for assessing the effectiveness of the Board as a whole and for assessing the contribution by each individual Director to the effectiveness of the Board. Each member of the Nominating Committee shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the Nominating Committee in respect of the assessment of his performance or re-nomination as Director.

### REMUNERATION COMMITTEE

Our Remuneration Committee comprises Soh Beng Keng, Lim Siang Kai and Teo Cher Koon. The Chairman of the Remuneration Committee is Soh Beng Keng. Our Remuneration Committee will recommend to our Board a framework of remuneration for the Directors and key executives, and determine specific remuneration packages for each Executive Directors. The recommendations of our Remuneration Committee should be submitted for endorsement by the Board. All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses, options and benefits in kind shall be covered by our Remuneration Committee. Each member of the Remuneration Committee shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the Remuneration Committee in respect of his remuneration package.

### AUDIT COMMITTEE

Presently, our business and operations are under the management and close supervision of our Executive Directors who are assisted by a team of key Executive Officers. We recognise the importance of corporate governance and the high standards of accountability to our Shareholders.

Our Independent Directors are Lim Siang Kai and Soh Beng Keng and they are not related to our other Directors or Substantial Shareholder. Our Audit Committee comprises Lim Siang Kai, Soh Beng Keng and Tay Gim Sin Leonard. The chairman of the Audit Committee is Lim Siang Kai.

Our Audit Committee maintains high standards of corporate governance within our Group. The Audit Committee shall meet periodically to perform the following functions:-

- (a) review the audit plans of our Company's external auditors and our internal auditors, where applicable;
- (b) review the external auditors' reports;
- (c) review the co-operation given by our officers to the external auditors and our internal auditors, where applicable;

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## CORPORATE GOVERNANCE

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- (d) review, where applicable, the scope and results of the internal audit procedures;
- (e) review the financial statements of our Company and the Group before their submission to the Board of Directors;
- (f) nominate external auditors for appointment;
- (g) review the Group's compliance with such functions and duties as may be required under the relevant statutes or the Listing Manual, and by such amendments made thereto from time to time; and
- (h) review interested person transactions.

Apart from the duties listed above, the Audit Committee shall commission and review the findings of internal investigations into matters where there is any suspected fraud or irregularity, or failure of internal controls or infringement of any Singapore law, rule or regulation which has or is likely to have a material impact on the Group's operating results and/or financial position. Each member of the Audit Committee shall abstain from voting on any resolutions and making any recommendations and/or participating in any deliberations of the Nominating and Remuneration Committee in respect of matters in which he is interested.

### **Audit Committee review**

#### *Review of our Group financial statements and establishment of internal audit function*

Our Audit Committee, with the assistance of our internal and external auditors, will review our financial statements prior to its announcements at the end of every reporting period. Our Company will establish and implement our internal audit function within three months of our admission to the Official List of the SGX-ST. Our Audit Committee will liaise with both our internal and external auditors to continually review and ensure proper accounting of the Group's budgeting process, proper authorisation and recording of project costs in order to ensure accuracy in the computation and recognition of revenue.

#### *Review of foreign currency hedging policies implemented by the Company*

As a significant portion of the purchases and sales of the Company is conducted in foreign currencies, the Company may from time to time conduct foreign currency hedging activities based on the foreign currency hedging policies implemented in order to protect our Company against volatile foreign currency exchange rates. The Audit Committee shall on a half-yearly basis review, deliberate and recommend to the Board on processes to be undertaken with respect to the foreign currency hedging policies and the respective financial instruments to effect such hedging activities conducted by the Company. Board approval shall be required before the Company implements any foreign currency hedging policies.

#### *Interested Person Transactions*

Our Audit Committee will review all present and future interested person transactions to ensure that they are (a) made at arm's length, (b) on normal commercial terms and (c) are not prejudicial to our Shareholders.

If a member of our Audit Committee has an interest in the relevant transaction, he will abstain from the deliberations of our Audit Committee with respect to that transaction. Our Audit Committee has the overall responsibility to determine the necessary and appropriate safeguard procedures, with the authority to delegate to individuals within our Company as it deems appropriate.

Our Audit Committee will carry out half-yearly reviews to ascertain whether such procedures have been complied with. Further, if during these periodic reviews, our Audit Committee is of the view that such safeguard procedures are not sufficient to ensure that interested person transactions are made at arm's length, on normal commercial terms and are not prejudicial to our Shareholders, we will revise such safeguard procedures in accordance with the recommendations of our Audit Committee and will seek a mandate from our Shareholders based on such revised safeguard procedures.

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## **CORPORATE GOVERNANCE**

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Our Audit Committee will also review all interested person transactions to ensure that the then prevailing rules and regulations of the SGX-ST (in particular Chapter 9 of the Listing Manual) are complied with. We will also endeavour to comply with the principles and best practices set out in the “Best Practices Guide” of the Listing Manual.

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## ISDN HOLDINGS SHARE OPTION SCHEME

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The terms of our Share Option Scheme are set out in Appendix B of this Prospectus.

Under the rules of the Share Option Scheme, our Executive Officers and Non-executive Directors and employees of our Group and associated companies of our Company, are eligible to participate in the Share Option Scheme.

### **Purpose of the Share Option Scheme**

The purpose of the Share Option Scheme is to provide an opportunity for our Executive Directors and employees of our Group to participate in the equity of our Company so as to motivate them to greater dedication, loyalty and higher standard of performance, and to give recognition to Non-executive and Independent Directors of our Company and employees of our associated companies who have contributed to the success and development of our Company and/or our Group. The Share Option Scheme is proposed on the basis that it is important to acknowledge the contribution, which is essential for the well-being and prosperity of our Group, made by these categories of persons. Our Company, by adopting the Share Option Scheme, will give these categories of persons a real and meaningful stake in our Company and will help to achieve the following objectives:-

- (a) the motivation of participants to optimise performance standards and efficiency and to maintain a high level of contribution;
- (b) the retention of key employees whose contributions are important to the long term growth and prosperity of our Group;
- (c) the attainment of harmonious employer/staff relations, as well as the strengthening of working relationships with our Group's close business associates; and
- (d) the development of a participatory style of management which promotes greater commitment and dedication amongst the employees and instills loyalty and a stronger sense of identification with the long term prosperity of our Group.

### **Summary of the Share Option Scheme**

A summary of the rules of the Share Option Scheme is set out as follows:

#### **(1) Participants**

Under the rules of the Share Option Scheme, the following persons are eligible to participate in the Share Option Scheme:

##### **(a) Group Employees**

- (i) confirmed full-time employees of our Company and/or its subsidiaries who have attained the age of 21 years on or before the Offering Date;
- (ii) directors of our Company and/or its subsidiaries who perform an executive function;
- (iii) Non-executive and Independent Directors of our Company; and
- (iv) employees who qualify under sub-paragraph (i) above and are seconded to a company in an Associated Company, or any other company outside the Group in which our Company and/or Group has an equity interest.

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## ISDN HOLDINGS SHARE OPTION SCHEME

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(b) Associated Company Employees

- (i) confirmed full-time employees of an Associated Company who have attained the age of 21 years and above on or before the Offering Date;
- (ii) directors of an Associated Company who perform an executive function; and
- (iii) non-executive directors of an Associated Company.

Provided always that persons who qualify under (a) or (b) above and are also our Company's Controlling Shareholders and their associates shall not participate in the Share Option Scheme.

(2) Share Option Scheme administration

The Share Option Scheme is administered by our Remuneration Committee appointed and authorised by our Directors to administer the Share Option Scheme. A member of the Remuneration Committee who is also a participant of the Share Option Scheme must not be involved in its deliberations in respect of options granted or to be granted to him.

(3) Share Option Scheme Size

The aggregate number of Shares over which the Remuneration Committee may grant options on any date, when added to the number of Shares issued and issuable in respect of all options granted under the Share Option Scheme and Shares subject to any other share option schemes of our Company, shall not exceed 15 per cent. of the issued Shares of our Company on the date preceding the grant of an option. The number of Participants is expected to grow over the years as our Group brings its business into greater heights of expansion. Further, the Company intends to include more deserving employees into the Share Option Scheme. If the number of Options available under the Share Option Scheme is small, the Company may only be able to grant a small number of Options to each Participant, which may not be a sufficiently attractive incentive. Hence, there should be a sufficient number of Options under the Scheme to offer to existing employees as well as new employees. The number of Options offered must also be significant enough to serve as a meaningful reward for contribution to the Group. This will also give the Company greater flexibility in the structuring of remuneration and incentive packages for those deserving employees and directors. Accordingly, the Company believes that the size of the Scheme of up to 15 per cent. of the issued share capital of the Company will be imperative in achieving the above purposes.

(4) Maximum entitlements

The number of Shares comprised in any options to be offered to a participant in the Share Option Scheme shall be determined at the absolute discretion of the Remuneration Committee, who shall take into account criteria such as the rank, the past performance, the number of years of service, potential for future development and contribution of that Participant.

(5) Options, exercise period and exercise price

Options that are granted under the Share Option Scheme may have exercise prices that are, at the Remuneration Committee's discretion, set at a discount to the market price of a Share, in which event, such options may be exercised on the second anniversary from the date of grant of the option ("Incentive Options"), or fixed at a price equal to the average of the last dealt market prices for a Share for the five consecutive Market Days immediately preceding the grant of the relevant option, such options may be exercised on the first anniversary from the date of the grant of the option ("Market Price Options"). Where the exercise price is not set at a discount to the market price, the relevant option may be exercised after the first anniversary of the date of grant of that option. In addition, we will also have the discretion to impose conditions on exercise of the options (whether an Incentive Option or a Market Price Option) such as limiting the number of Shares in respect of which the option may be exercised during the exercise period applicable to that option.

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## ISDN HOLDINGS SHARE OPTION SCHEME

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(6) Grant of options

Under the rules of the Share Option Scheme, there are no fixed periods for the grant of options. As such, offers of the grant of options may be made at any time and from time to time at the discretion of the Remuneration Committee. However, in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, offers may only be made after the second Market Day from the date on which the aforesaid announcement is released.

(7) Termination of options

Special provisions in the rules of the Share Option Scheme deal with the lapse or earlier exercise of options in circumstances which include the termination of the participant's cessation of employment in our Group or Associated Company (as the case may be); the bankruptcy of the participant; the death of the participant; a take-over of our Company; and the winding-up of our Company.

(8) Acceptance of options

Offers of options made to grantees, if not accepted by the grantees within 30 days from the date of the offer, will lapse. Upon acceptance of the offer, the grantee must pay us a consideration of S\$1.00.

(9) Rights of Shares arising

Shares arising from the exercise of options are subject to the provisions of the Memorandum and Articles of Association of our Company. The Shares so allotted will upon issue rank pari passu in all respects with the then existing issued Shares, and shall rank in full for all entitlements, including any dividends, or other distributions declared or recommended in respect of the then existing Shares, the record date ("Record Date") for which falls on or before the relevant exercise date of the option. "Record Date" means the date as at the close of business on which our Shareholders must be registered in order to participate in any dividends, rights, allotments or other distributions.

(10) Duration of the Share Option Scheme

The Share Option Scheme shall continue in operation for a maximum duration of 10 years commencing on the date on which the Share Option Scheme is adopted by our Company in general meeting, provided always that the Share Option Scheme may continue beyond the above stipulated period with the approval of our Shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.

### **Grant of Options with a Discounted Exercise Price**

The ability to offer options to Participants of the Share Option Scheme with exercise prices set at a discount to the prevailing market price of our Shares will operate as a means to recognise Participants for their outstanding performance as well as to motivate them to continue to excel.

The flexibility to grant Option Shares with discounted exercise prices is also intended to cater to situations where the stock market performance has overrun the general market conditions. In such events, the Remuneration Committee will have the absolute discretion to:

- (a) grant Option Shares with discounted exercise prices subject to the aforesaid limit; and

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## ISDN HOLDINGS SHARE OPTION SCHEME

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- (b) determine the participants to whom, and the options to which, such reduction in exercise prices will apply. In determining whether to give a discount and the quantum of such discount, the Remuneration Committee shall be at liberty to take into consideration factors including the performance of our Company or our Group, the years of service and the performance of the Participant concerned, the contribution of the Participant to the success and development of our Group, and the prevailing market conditions. It is envisaged that our Company may consider granting Option Shares with exercise prices set at a discount to the market price of our Shares prevailing at the time of grant under circumstances including (but not limited to) the following:
- (i) where, due to speculative forces in the stock market resulting in an overrun of the market, the market price of our Shares at the time of the grant of options is not a true reflection of the financial performance of our Company;
  - (ii) to enable our Company to offer competitive remuneration packages in the event that the practice of granting options with exercise prices that have a discount element becomes a general market norm. As share options become more significant components of executive remuneration packages, a discretion to grant options with discounted exercise prices will provide our Company with a means to maintain the competitiveness of our Group's compensation strategy; and/or
  - (iii) where our Group needs to provide more compelling motivation for specific business units to improve our performance, grants of share options with discounted exercise prices will help to align the interests of employees to those of the shareholders as they would be perceived more positively by the employees who receive such options. The Committee will determine on a case by case basis whether a discount will be given, and if so, the quantum of the discount, taking into account the objective that is desired to be achieved by our Company and the prevailing market conditions. As the actual discount given will depend on the relevant circumstances, the extent of the discount may vary from one case to another, subject to a maximum discount of 20 per cent. to the market price of our Shares. The discretion to grant options to subscribe for Shares at an exercise price set at a discount to the market price will, however, be used judiciously. The amount of the discount may vary from one offer to another, and from time to time, subject to a limit of 20 per cent. on the quantum of discount in respect of options granted under the Share Option Scheme.

In determining the quantum of such discount, the Committee will take into consideration such criteria as the Committee may, in its absolute discretion, deem appropriate including but not limited to:

- (i) the performance of our Company and our Group;
- (ii) the individual performance of the participant; and
- (iii) the contribution of the participant to the success and development of our Company and/or our Group.

Such flexibility in determining the quantum of discount would enable the Committee to tailor the incentives in the grant of options commensurate with the performance and contribution of each individual participant. By individually recognising the degree of performance and contribution of each participant, the granting of options at a commensurate discount would enable the Committee to provide incentives for better performance, greater dedication and loyalty of the participants.



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## ISDN HOLDINGS SHARE OPTION SCHEME

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Our Company may also grant options without any discount to the market price. In addition, our Company may, if it deems fit, impose conditions on the exercise of the options (whether such options are granted at the market price or at a discount to the market price), such as restricting the number of Shares for which the option may be exercised during the initial years following its vesting.

Non-executive Directors may only be granted options under the Share Option Scheme without a discount to the market price.

### **Participants in the Share Option Scheme**

#### **(a) Executive Directors of our subsidiaries and full-time employees of our Group**

The extension of the Share Option Scheme to executive directors of our subsidiaries and our confirmed full-time employees allows us to have a fair and equitable system to reward executive employees who have made and who continue to make important contributions to the long-term growth of our Group. The Share Option Scheme will also serve to attract, retain and provide incentives to its participants to higher standards of performance as well as encourage greater dedication and loyalty by enabling our Company to give recognition to past contributions and services as well as motivating them to contribute towards our long-term prosperity.

#### **(b) Associated Company Employees**

We recognise that it is important to the well-being and stability of our Group that we acknowledge the services and contributions made by Associated Company employees so that our Group will continue to receive their support and contributions.

By implementing the Share Option Scheme, our Company will have a means of providing such Associated Company employees with an opportunity to share in the success and achievements of our Group through participation in the equity of our Company as they are nevertheless closely associated with our Group and our business operations. By doing so, we also hope to strengthen our working relationships with the Participants by inculcating in them a stronger and more lasting sense of identification with our Group.

### **The Cost To Us For Granting Options Under The Scheme**

Any Options granted for Shares (whether or not the exercise price is set at a discount to the prevailing market price of our Shares) have a fair market value. Where such Options are granted at a consideration which is less than their fair value, there will be a cost to us, the amount of which will depend on whether the Options are granted at market price or at a discount. The greater the discount granted and the longer the option period, the greater the cost to us.

Our cost of granting Options, with or without a discounted exercise price under the Scheme, would be as follows:-

- (a) The effect of the issue of new Shares upon the exercise of Options on our NTA per Share is accretive if the exercise price is above the NTA per Share, but dilutive otherwise;
- (b) If the Options are granted with a discounted exercise price, the exercise price of an Option at a discounted exercise price would translate to a reduction of the proceeds from the exercise of such an Option, as compared to the proceeds that we would have received from such exercise had the exercise been made at the prevailing market price of our Shares. Such reduction of the exercise proceeds would represent the monetary cost to us of granting Options with a discounted exercise price;
- (c) As the monetary cost of granting Options with a discounted exercise price is borne by us, our earnings would effectively be reduced by an amount corresponding to the reduced interest earnings that we would have received from the difference in proceeds from exercise price with no discount versus the discounted price. Such reduction would, accordingly, result in the dilution of our earnings per Share; and

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## ISDN HOLDINGS SHARE OPTION SCHEME

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- (d) The grant of Options under the Scheme will not have an impact on our Company's reported profit under current accounting rules set out in Singapore Financial Reporting Standards (SFRS). However, a new accounting standard SFRS 102 will require the recognition of an expense in respect of Options granted under the Scheme. The expense will be based on the fair value of the Options at the date of grant (as determined by an option-pricing model) and will be recognised over the vesting period. The requirement to recognise an expense in respect of options granted to employees is set out in SFRS 102, Share-based Payment. SFRS 102 is effective for financial periods beginning on or after 1 January 2005.

It should be noted that the financial effects discussed in (a), (b) and (c) above would materialise only upon the exercise of the relevant Options. The cost of granting options discussed in (d) above would be recognised in the financial statements even if the options are not exercised in (d). Measured against these costs would be the desirable effect of the Scheme to attract, recruit, retain and motivate Directors and employees which could, in the long term, yield greater returns for us and our Shareholders.

In-principle approval has been obtained from the SGX-ST for the listing and quotation of the Option Shares. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Option Shares. The rules of the Share Option Scheme are set out in Appendix B to this Prospectus. Details of the number of options granted, the number of options exercised and the subscription price (as well as any discount involved) will be disclosed in our annual report.

Details of the number of options granted pursuant to the Share Option Scheme, the number of options exercised and the exercise price (as well as any applicable discounts) will be disclosed in our annual report.

No option to subscribe for Shares or debentures of our Company has been granted to or exercised by any Director or Executive Officer of our Company over the last two financial years.

## INTERESTED PERSON TRANSACTIONS

In general, transactions between our Group and any of the interested persons (namely, the Directors or Controlling Shareholders of our Company or the associates of such Directors or Controlling Shareholders) are known as interested person transactions. Save as disclosed below and in the section entitled "Restructuring Exercise" in this Prospectus, no Director or Controlling Shareholder or associate of any Director or Controlling Shareholder was or is interested person transactions undertaken by our Group which is considered material in itself, within the last three financial years and up to the Latest Practicable Date.

### **Past Interested Person Transactions**

#### ***Loans due to our Managing Director and President Teo Cher Koon***

Our Managing Director and President Teo Cher Koon had in the past extended interest-free, unsecured loans which had no fixed terms of repayment to our subsidiaries Servo Dynamics, Portwell, Leaptron and SD Malaysia. The loans received by Servo Dynamics were for working capital funding. The loans from Mr. Teo to Servo Dynamics were fully repaid as at the Latest Practicable Date.

In addition, Teo Cher Koon had subscribed shares in SD Hong Kong of which S\$12,000 remained unpaid for FY2002, FY2003 and FY2004. In FY2004, Mr. Teo received the sum of S\$3,000 on behalf of SD Hong Kong from a customer for goods sold and delivered. As at the Latest Practicable Date, the outstanding sums due from Teo Cher Koon to the Group has been fully repaid.

The highest amounts due from and/or to Teo Cher Koon in each of the financial years FY2002, FY2003 and FY2004 were as follows:-

	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>	<b>As at the Latest Practicable Date</b>
Highest amount due to Teo Cher Koon from our Group in the financial year	2,590	2,771	2,591	—
Amount owing to Teo Cher Koon as at the end of the period	2,415	2,771	53	—

	<b>FY2002</b>	<b>FY2003</b>	<b>FY2004</b>	<b>As at the Latest Practicable Date</b>
Highest amount due from Teo Cher Koon to our Group in the financial year	(13)	(13)	(16)	—
Amount owing by Teo Cher Koon as at the end of the period	(13)	(13)	(16)	—

As at the Latest Practicable Date, all loans due to Teo Cher Koon and all sums due from Teo Cher Koon to our Group had been fully repaid.

#### ***Lease Agreement between Dirak Asia Pte Ltd and our subsidiary, Precision Motion Control Pte Ltd***

On 1 September 2004, our subsidiary, Precision Motion entered into a lease agreement with Dirak Asia for the lease of part of the premises located at 10 Kaki Bukit Road 1 #01-37 KB Industrial Building Singapore 416175. Under the lease agreements, Precision Motion would lease from Dirak Asia a floor area of approximately 1,681 sq. ft. for a monthly rental of S\$800.

Precision Motion has since 15 July 2005 vacated the premises at 10 Kaki Bukit Road 1 #01-37 KB Industrial Building Singapore 416175. They currently lease premises from unrelated third parties.

Our Directors are of the view that the rent payable was within the range of prevailing market rates and the lease was entered into on an arm's length basis.

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## INTERESTED PERSON TRANSACTIONS

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### ***Management fees paid by Dirak Asia Pte Ltd to Servo Dynamics Pte Ltd***

Our Managing Director and President, Teo Cher Koon, is the director and 50% shareholder in Dirak Asia. The other 50% of the shares in Dirak Asia are held by an unrelated third party. Dirak Asia is in the business of trading in industrial enclosure products such as locks and hinges.

Our subsidiary, Servo Dynamics provides Dirak Asia with management services, comprising general administration and accounting support on an arm's length basis. The total management fees received from Dirak Asia expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Management fees from Dirak Asia	12	12	12	6
As a percentage of total sales (%)	0.06	0.03	0.02	0.04

As at the Latest Practicable Date, we have ceased providing management services to Dirak Asia.

### ***Transactions between Dirak Suzhou Co., Ltd, SD Suzhou and Maxon Suzhou***

Dirak Asia is the holding company of Dirak Suzhou, a company incorporated in the PRC engaged in the manufacturing of machinery electronic locks and other related hardware accessories. Our Managing Director and President, Teo Cher Koon, and our Executive Director and Senior Vice President – PRC Operations Kong Deyang, are both directors in Dirak Suzhou.

#### ***(i) Acquisition of Furniture and Fittings by SD Suzhou from Dirak Suzhou***

In 2005, SD Suzhou took over part of Dirak Suzhou's leased premises at No.12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC. Dirak Suzhou divested the furniture and fittings at the vacated premises at Net Book Value to SD Suzhou for a consideration of S\$1,000, representing 0.01% of the Net Tangible Assets of the Group as at 31 December 2004. The transaction was conducted on an arm's length basis.

#### ***(ii) Acquisition of Furniture and Fittings by Maxon Suzhou from Dirak Suzhou***

In 2005, Maxon Suzhou took over part of Dirak Suzhou's leased premises at No.12-2 Workshop of Xinchuang Industry Workshops, No. 625 Binhe Road, Suzhou New District, the PRC. Dirak Suzhou divested the furniture and fittings at the vacated premises at Net Book Value to Maxon Suzhou for a consideration of S\$2,000, representing 0.02% of the Net Tangible Assets of the Group as at 31 December 2004. The transaction was conducted on an arm's length basis.

### ***Loans from associates of our Managing Director and President, Teo Cher Koon***

Teo York Eng, the mother of our Managing Director and President, Teo Cher Koon and a director (who has resigned prior to this Invitation) and shareholder of Servo Dynamics, had in the past extended loans to our subsidiary Servo Dynamics. The loans were interest-free, unsecured and had no fixed term of repayment. These loans have been fully repaid during FY2004.

Thang Yee Chin, the wife of our Managing Director and President, Teo Cher Koon and a director and shareholder of Precision Motion and Portwell, had in the past extended loans to our subsidiaries Precision Motion and Portwell. The loans were interest-free, unsecured and had no fixed term of repayment. These loans have been fully repaid during FY2004.

## INTERESTED PERSON TRANSACTIONS

The amounts due from and to Mdm Teo and Thang Yee Chin as at the end of each of the last three financial years were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Highest amount due to Teo York Eng	1,345	1,226	1,040	–
Amount due to Teo York Eng	1,241	1,074	–	–
Highest amount due to Thang Yee Chin	191	136	90	–
Amount due to Thang Yee Chin	122	135	–	–

We do not intend to obtain any loan from Mdm Teo or Mdm Thang after our listing on the SGX-ST.

### ***Guarantees provided by our Managing Director and/or his associates***

Our Managing Director and President Teo Cher Koon and/or his mother, Teo York Eng had in the last three financial years and up to the Latest Practicable Date, provided guarantees to secure the Group's bank facilities as set out below: -

Bank	Amount of facilities guaranteed	Facilities for use by/ Purpose	Guarantee provided by
United Overseas Bank Ltd	S\$3,608,000	Servo Dynamics/ working capital and mortgage facilities	Teo Cher Koon and Teo York Eng
DBS Bank Ltd	S\$7,000,000	Servo Dynamics/ working capital	Teo Cher Koon
United Overseas Bank (Shanghai Branch)	US\$500,000	SD Suzhou/ working capital	Teo Cher Koon
DBS Bank Ltd (Shanghai Branch)	US\$500,000	SD Suzhou/ working capital	Teo Cher Koon
DBS Bank Ltd	S\$950,000	Leaptron/ working capital	Teo Cher Koon
Pacific Bank Berhad	RM272,000	SD Malaysia/ working capital	Teo Cher Koon

The nature of the facilities secured by the above guarantees is set out under the section entitled "Capitalisation and Indebtedness" in this Prospectus.

We intend, subject to the approval of the above banks granting facilities to our subsidiaries, to procure the discharge of the guarantees by replacing the same with guarantees by our Company.

### ***Transactions between Taiwan Servo Dynamics Co., Ltd. and our Group***

Our Managing Director and President, Teo Cher Koon was the director and has approximately 40% of the shares in Taiwan Servo Dynamics Co., Ltd., a company incorporated in Taiwan, which is engaged in the business of selling motion control systems in Taiwan.

## INTERESTED PERSON TRANSACTIONS

The total sales to and/or purchases from Taiwan Servo Dynamics Co., Ltd. by our Group which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to 12 April 2005
Sales to Taiwan Servo Dynamics Co., Ltd.	36	181	75	7
As a percentage of total sales (%)	0.17	0.46	0.14	0.05
Purchases from Taiwan Servo Dynamics Co., Ltd.	16	25	89	2
As a percentage of total purchases (%)	0.11	0.09	0.23	0.02

On 12 April 2005, Teo Cher Koon has resigned from his directorship and sold all his equity interest in Taiwan Servo Dynamics Co., Ltd. to unrelated third parties.

### ***Transactions between Adlink Technology Singapore Pte Ltd and our Group***

Our Managing Director and President, Teo Cher Koon was the director and held approximately 30% of the shares in Adlink Technology Singapore Pte Ltd, a company incorporated in Singapore, which is engaged in the business of trading in industrial computer products.

The total sales to and/or purchases from Adlink Technology Singapore Pte Ltd, by our Group which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Adlink Technology Singapore Pte Ltd	3	—	—	—
As a percentage of total sales (%)	0.014	—	—	—
Purchases from Adlink Technology Singapore Pte Ltd	1	—	—	—
As a percentage of total purchases (%)	0.006	—	—	—

Teo Cher Koon resigned from his directorship and transferred all his equity interest in Adlink Technology Singapore Pte Ltd to unrelated third parties in 2002.

### ***Transactions between Digital Generation Industries Co., Ltd and our Group***

Our Managing Director and President, Teo Cher Koon and our Executive Officer, Udom Warasatian have respectively 20% and 10% equity interest in a Thai company known as Digital Generation Industries Co., Ltd. Digital Generation Industries Co., Ltd was a joint venture initially established with the intention of expanding our sales of Wonderware in the Thai market. Both Teo Cher Koon and Udom Warasatian are not directors in Digital Generation Industries Co., Ltd.

## INTERESTED PERSON TRANSACTIONS

The total sales to Digital Generation Industries Co., Ltd by our Group which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Digital Generation Industries Co., Ltd	16	19	23	1
As a percentage of total sales (%)	0.08	0.05	0.04	0.01

Our Managing Director and President, Teo Cher Koon and our Executive Officer, Udom Warasatian had on 28 July 2005 transferred their equity interest to unrelated third parties.

### ***Transactions between Leaptron Technology Pte Ltd and our Group***

Our Managing Director and President, Teo Cher Koon is the director and has approximately 33% of the shares in Leaptron Technology Pte Ltd, a company incorporated in Singapore, which is engaged in the business of importing, exporting, servicing and trading of motion control components and providing integrated solutions.

The total sales to and/or purchases from Leaptron Technology Pte Ltd by our Group which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Leaptron Technology Pte Ltd	27	2	—	—
As a percentage of total sales (%)	0.13	0.005	—	—
Purchases from Leaptron Technology Pte Ltd	—	0.5	—	—
As a percentage of total purchases (%)	—	0.002	—	—

On 3 July 2005, Teo Cher Koon resigned from his directorship in Leaptron Technology Pte Ltd.

Leaptron Technology Pte Ltd has been dormant since 2004 and the majority shareholders are in the process of winding up the company.

### ***Transactions between Resem Inc. Philippines and our Group***

The spouse of our Managing Director and President, Teo Cher Koon, Thang Yee Chin was a 40% shareholder and director in Resem Inc. Philippines a company incorporated in the Philippines, which is engaged in the trading of engineering components.

The director of PMC Philippines, namely Chin Hee Loong, was also a director and shareholder in Resem Inc. Philippines.

We sell our motion control components and systems to Resem Inc. Philippines and we also pay to them sales commissions.



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## INTERESTED PERSON TRANSACTIONS

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The total sales to Resem Inc. Philippines by our Group and sales commissions paid to Resem Inc. Philippines which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to to Resem Inc. Philippines	5	6	4	1
As a percentage of total sales (%)	0.02	0.02	0.01	0.01
Commissions expense paid to Resem Inc. Philippines	16	7	6	6
As a percentage of total sales (%)	0.07	0.02	0.01	0.02

On 11 January 2005, Thang Yee Chin resigned from her directorship in Resem Inc. Philippines and transferred all her equity interest in Resem Inc. Philippines to unrelated third parties.

Chin Hee Loong has on 7 July 2005 resigned from his directorship and transferred all his equity interest in Resem Inc. Philippines to unrelated third parties.

***Earmarking the account of Servo Dynamics Pte Ltd with United Overseas Bank Ltd for the issuance of letters of credit for the account DPL Technologies & Services Pte Ltd***

Kho Kok Leong, who holds 70% stake in DPL Technologies & Services Pte Ltd is the nephew of our Managing Director and President, Teo Cher Koon. DPL Technologies & Services Pte Ltd is engaged in the business of sales and marketing of industrial laser. On 14 April 2004 and 12 May 2004, Servo Dynamics authorised United Overseas Bank Ltd to earmark the sums of US\$165,774 and EUD 63,430 respectively from their account for the issuance of two letters of credit to unrelated third parties for DPL Technologies & Services Pte Ltd. Both letters of credit were discharged on 3 June 2004.

Our Group does not intend to earmark any account with any financial institution to assist DPL Technologies & Services Pte Ltd in the issuance of any letters of credit in the future.

***Consultancy agreement between our Non-executive Director, Tay Gim Sin Leonard with our subsidiary, Servo Dynamics***

On 25 May 2004, our Non-executive Director, Tay Gim Sin Leonard entered into a consultancy agreement with our subsidiary Servo Dynamics under which Tay Gim Sin Leonard would provide our subsidiary, Servo Dynamics with consultancy services with respect to and in connection with this Invitation.

Under the consultancy agreement, Tay Gim Sin Leonard would be paid a consultancy fee of S\$1,000.00 a month from the date of the agreement and receive approximately S\$120,000 worth of our ordinary shares upon receipt of the Letter of Eligibility to List from the SGX-ST. The consultancy agreement was entered on an arm's length basis

On 27 September 2005, Assestraise Holdings Limited transferred 527,000 ordinary shares of S\$0.05 each to Tay Gim Sin Leonard, in full satisfaction of the contractual obligations of Servo Dynamics under the consultancy agreement.

***Technical consultancy fees from Resem Technologies Pte Ltd***

Resem Technologies is a company incorporated in Singapore with an issued and paid-up share capital of S\$50,000 engaged in the business of distributing laser equipment. Teo Sok Hun, the sister of our Managing Director and President, Teo Cher Koon, is a non-executive Director in Resem Technologies and does not participate in the day-to-day operations of Resem Technologies. She holds 34,999 ordinary shares of S\$1.00 each in the share capital of Resem Technologies.

## INTERESTED PERSON TRANSACTIONS

The other shareholders of Resem Technologies are Poh Kok Ching Derrick and See Choon Meng who hold 15,000 and 1 ordinary shares of S\$1.00 each in the share capital of Resem Technologies respectively. Poh Kok Ching Derrick and See Choon Meng are not related to any of our Directors, Executive Officers and Substantial Shareholder or their associates.

In FY2002, Servo Dynamics provided technical consultancy services which were conducted on an arm's length basis to Resem Technologies. Servo Dynamics received technical consultancy fees amounted to S\$88,000, based on the number of man-hours incurred, from Resem Technologies. We have not provided any technical consultancy services to Resem Technologies since FY2003 and we do not intend to provide such services to Resem Technologies after our listing on the SGX-ST.

### **Present and Ongoing Transactions**

#### ***Transactions with Resem Technologies***

From time to time, our Group sells some of our products to Resem Technologies. The total sales to and purchases from Resem Technologies by our Group and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Resem Technologies	178	20	143	188
As a percentage of total sales (%)	0.8	0.1	0.2	0.7
Receivables from Resem Technologies as at the end of the financial period	351	248	391	195
Purchases from Resem Technologies	110	89	80	27
As a percentage of total purchases (%)	0.7	0.3	0.2	0.2
Payables to Resem Technologies as at the end of the financial period	78	104	73	3

All above transactions between our Group and Resem Technologies were conducted on an arm's length basis and on normal commercial terms. We intend to continue transacting with Resem Technologies as long as we derive commercial benefit from such transactions.

After the admission of our Company to the Official List of the SGX-ST, all our aforesaid interested person transactions with Resem Technologies will be subject to the "Review Procedures for Transactions with the Interested Persons" of this Prospectus and Chapter 9 of the Listing Manual.

#### ***Transactions between Dirak Suzhou Co., Ltd, SD Suzhou and Maxon Suzhou***

Our Managing Director and President Teo Cher Koon is the director and 50% shareholder in Dirak Asia. The other 50% of the shares in Dirak Asia are held by an unrelated third party. Dirak Asia is in the business of trading in industrial enclosure products such as locks and hinges.

Dirak Asia is the holding company of Dirak Suzhou, a company incorporated in the PRC engaged in the manufacturing of machinery electronic locks and other related hardware accessories. Our Managing Director and President, Teo Cher Koon and our Executive Director and Senior Vice President – PRC Operations, Kong Deyang are both directors in Dirak Suzhou.

## INTERESTED PERSON TRANSACTIONS

(i) Transactions between Dirak Suzhou Co., Ltd. and SD Suzhou

The purchases from Dirak Suzhou by SD Suzhou are insignificant. The total sales to Dirak Suzhou with SD Suzhou which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Dirak Suzhou	–	1	2	–
As a percentage of total sales (%)	–	0.003	0.003	–

(ii) Transactions between Dirak Suzhou Co., Ltd. and Maxon Suzhou

The total sales to Dirak Suzhou with Maxon Suzhou which were conducted on an arm's length basis and expressed as a percentage of our Group's total sales for the last three financial years and for the financial period from 1 January 2005 to the Latest Practicable Date were as follows:

S\$'000	FY2002	FY2003	FY2004	1 January 2005 to Latest Practicable Date
Sales to Dirak Suzhou	5	–	–	–
As a percentage of total sales (%)	0.02	–	–	–

We intend to continue transacting with Dirak Suzhou after the Invitation. After the admission of our Company to the Official List of the SGX-ST, all such transactions will be subject to the "Review Procedures for Transactions with the Interested Persons" set out in this Prospectus and Chapter 9 of the Listing Manual.

***Lease Agreement between Dirak Asia Pte Ltd and our subsidiary, Portwell Singapore Pte Ltd***

On 1 September 2004, our subsidiaries, Portwell entered into a lease agreement with Dirak Asia for the lease of part of the premises located at No. 10 Kaki Bukit Road 1 #01-37 KB Industrial Building Singapore 416175. Under the lease agreement, Portwell would lease a floor area of approximately 2,242 sq. ft. for a month rental of S\$1,300 from Dirak Asia.

The lease agreements are for a period of 1 year commencing on 1 September 2004 and ending on 30 August 2005.

On 1 September 2005, Portwell renewed their lease agreement with Dirak Asia for a period of one year for a floor area of approximately 2,242 sq. ft. for a monthly rental of \$1,700.00. Our Directors are of the view that such rent payable is within the range of prevailing market rates and the lease was entered into on an arm's length basis. After the admission of our Company to the Official List of the SGX-ST, all such transactions will be subject to the "Review Procedures for Transactions with the Interested Persons" set out in this Prospectus and Chapter 9 of the Listing Manual.

***Lease agreement between an Executive Officer and his associate and SD Thailand***

SD Thailand had entered into a lease agreement with our Executive Officer, Udom Warasatian and his wife, Srisamphan Warasatian on 15 May 2003 for the lease of the building located at No 50/37 –38 Moo 9 Soi Wadnamdaeng Srinakarin Road, Bankaew Sub-district, Bangphlee District, Samutprakarn 10540, in Thailand.

The lease agreement is for a period of three years commencing on 15 May 2003 and ending on 15 May 2006, with no option to renew. The annual rent payable under the lease agreement is THB360,000 (or approximately S\$14,000), excluding holding taxes and payable every 15<sup>th</sup> day of the month. Our Directors are of the view that such rent payable is within the range of prevailing market rates and the lease was entered into on an arm's length basis.

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## INTERESTED PERSON TRANSACTIONS

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We intend to continue our lease arrangement with Udom Warasatian and Srisamphan Warasatian after the Invitation. After the admission of our Company to the Official List of the SGX-ST, all such transactions will be subject to the “Review Procedures for Transactions with the Interested Persons” set out in this Prospectus and Chapter 9 of the Listing Manual.

As at the Latest Practicable Date, our Directors do not foresee, to the best of their knowledge, any potential interested person transactions in the future. In the event of any future interested person transactions, our Directors will ensure that all disclosure, approval and other requirements on interested person transactions, including those required by the prevailing legislation, the Listing Manual and accounting standards are complied with.

Save as disclosed above, and in the section entitled “Restructuring Exercise” in this Prospectus, none of our Directors, Executive Officers or Substantial Shareholder and their Associates were or are interested in any material transaction undertaken by our Group within the last three financial years ended 31 December 2004 and up to the Latest Practicable Date.

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## POTENTIAL CONFLICTS OF INTEREST

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None of our Directors, Executive Officers, Substantial Shareholder or any of their associates has had any material interest, direct or indirect, in any transactions to which our Company was or is to be a party.

None of our Directors, Executive Officers, Substantial Shareholder or any of their associates has any interest, direct or indirect, in any company carrying on the same business or a similar trade which competes materially and directly with the existing business of our Group.

None of our Directors, Executive Officers, Substantial Shareholder or any of their associates has any material interest, direct or indirect, in any company that is our customer or supplier of goods and services.

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## DESCRIPTION OF OUR ORDINARY SHARES

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### DESCRIPTION OF OUR ORDINARY SHARES

The following statements are brief summaries of our capital structure and of the more important rights and privileges of our ordinary Shareholders as conferred by the laws of Singapore and our Articles of Association (the “Articles”). These statements summarise the material provisions of our Articles but are qualified in entirety by reference to the Articles.

#### Ordinary Shares

There are no founder, management, deferred or unissued shares reserved for issue for any purpose. The rights and privileges of these shares are stated in our Articles.

Our authorised capital is S\$100,000,000 consisting of 2,000,000,000 ordinary shares of par value S\$0.05 each. We have only one class of shares, namely, our ordinary shares. Our Articles provide that we may issue shares of a different class with preferential, deferred, qualified or special rights, privileges or conditions as our Board of Directors may think fit and may issue preferential shares which are, or at our option are, redeemable, subject to certain limitations. Our Board of Directors may issue shares at a premium. If shares are issued at a premium, a sum equal to the aggregate amount or value of the premium will, subject to certain exceptions, be transferred to a share premium account.

As at the date of this Prospectus, 158,798,700 Shares have been issued and fully paid. All of the ordinary shares are in registered form. We may, subject to the provisions of the Act and the rules of the SGX-ST, purchase our own ordinary shares. However, we may not, except in circumstances permitted by the Companies Act, grant any financial assistance for the acquisition or proposed acquisition of our own ordinary shares.

#### New Ordinary Shares

New ordinary shares may only be issued with the prior approval of our shareholders in a general meeting. The aggregate number of shares to be issued pursuant to such approval may not exceed 50 per cent. (or such other limit as may be prescribed by the SGX-ST from time to time) of our issued share capital for the time being, of which the aggregate number of shares to be issued other than on a pro-rata basis to our shareholders may not exceed 20 per cent. (or such other limit as may be prescribed by the SGX-ST from time to time) of our issued share capital at the time of the 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; and (c) any subsequent consolidation or subdivision of shares. The approval, if granted, will lapse at the conclusion of our annual general meeting following the date on which the approval was granted, the expiration of the period within which the next annual general meeting after that date is required by law to be held whichever is earlier or revoked or varied in a general meeting. Subject to the foregoing, the provisions of the Companies Act and any special rights attached to any class of shares currently issued, all new ordinary shares are under the control of our Board of Directors who may allot and issue the same with such rights and restrictions as they may think fit.

#### Shareholders

Only persons who are registered on our register of shareholders and, in cases in which the person so registered is CDP, the persons named as the Depositors in the Depository Register maintained by the CDP for the ordinary shares, are recognised as our Shareholders. We will not, except as required by law, recognise any equitable, contingent, future or partial interests in any ordinary share or other rights for any ordinary share or of the person whose name is entered in the Depository Register for that ordinary share. We may close our register of shareholders for any time or times if we provide the Accounting and Corporate Regulatory Authority with at least 14 days’ notice and the SGX-ST at least 10 clear Market Days’ notice. However, the register may not be closed for more than 30 days in aggregate in any calendar year. We typically close the register to determine our Shareholders’ entitlement to receive dividend and other distributions.

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## DESCRIPTION OF OUR ORDINARY SHARES

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### Transfer of Ordinary Shares

There is no restriction on the transfer of fully paid issued shares except where required by law or the listing rules or by-laws of SGX-ST. Our Board of Directors may decline to accept to register any transfer or ordinary shares which are not fully paid shares or ordinary shares on which we have a lien. Ordinary shares may be transferred by a duly signed instrument of transfer in a form approved by any stock exchange on which our Company is listed. Our Board of Directors may also exercise their discretion to decline to register any instrument of transfer unless, among other things, it has been duly stamped and is presented for registration together with the share certificate and such other evidence of title as they may require. We will replace lost or destroyed certificates of ordinary shares if we are properly notified and the applicant pays a fee which will not exceed S\$2 and furnishes any evidence and indemnity that our Board of Directors may require.

### General Meetings of Shareholders

We are required to hold an annual general meeting every year. Our Board of Directors may convene an extraordinary general meeting whenever it thinks fit and must do so if our Shareholders representing not less than 10.0 per cent. of the total voting rights of all our Shareholders request in writing that such a meeting be held. In addition, two or more of our Shareholders holding not less than 10.0 per cent. of our issued share capital may call for an extraordinary general meeting. Unless otherwise required by law or by our Articles, voting at general meetings is by ordinary resolution, requiring an affirmative vote for a simple majority of the votes cast at that meeting. An ordinary resolution suffices, for example, for the appointment of the directors. A special resolution, requiring the affirmative vote of at least 75.0 per cent. of the votes cast at that meeting, is necessary for certain matters under Singapore law, including voluntary winding up, amendments to our Memorandum of Association and our Articles, a change of our corporate name and a reduction in our share capital, share premium account or capital redemption reserve fund. We must give at least 21 days' notice in writing for every general meeting convened for the purpose of passing a special resolution. Ordinary resolutions generally require 14 days' notice in writing. The notice must be given to each of our Shareholders who have supplied us with an address in Singapore for the giving of notices and must set forth the place, the day and the hour of the meeting and, in the case of special business, the general nature of that business.

### Voting rights

A holder of our ordinary shares is entitled to attend, speak and vote at any general meeting, in person or by proxy. Proxies need not be a Shareholder. A person who holds ordinary shares through the SGX-ST book-entry settlement system will only be entitled to vote at a general meeting as a Shareholder if his name appears on the Depository Register maintained by the CDP 48 hours before the general meeting. Except as otherwise provided in our Articles, two or more Shareholders must be present in person or by proxy to constitute a quorum at any general meeting. Under our Articles, on a show of hands, every Shareholder present in person and by proxy shall have one vote (provided that in the case of a Shareholder who is represented by two proxies, only one of the two proxies as determined by that Shareholder or, failing such determination, by the Chairman of the meeting in his sole discretion shall be entitled to vote on a show of hands), and on a poll, every Shareholder present in person or by proxy shall have one vote for each ordinary share which he holds or represents. A poll may be demanded in certain circumstances including by the Chairman of the meeting or by any Shareholder present in person or by proxy and presenting not less than 10.0 per cent. of the total voting rights of all Shareholders having the right to attend and vote at the meeting or by any two Shareholders present in person or by proxy and entitled to vote. In the case of a tie vote, whether on a show of hands or a poll, the Chairman of the meeting shall be entitled to a casting vote.

### Dividend

We may, by ordinary resolution of our Shareholders, declare dividends at a general meeting, but we may not pay dividends in excess of the amount recommended by our Board of Directors. We must pay all dividends out of our profits; however, we may capitalise our share premium account and apply it to pay dividends, if such dividends are satisfied by the issue of shares to our Shareholders. See "Bonus and Rights Issue" below. All dividends are paid pro-rata amongst our Shareholders in proportion to the amount paid-up on each Shareholder's ordinary shares, unless the rights attaching to an issue of any



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## DESCRIPTION OF OUR ORDINARY SHARES

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ordinary share provide otherwise. Unless otherwise directed, dividends are paid by cheque or warrant sent through the post to each Shareholder at his registered address. Notwithstanding the foregoing, the payment by us to CDP of any dividend payable to a Shareholder whose name is entered in the Depository Register shall, to the extent of payment made to CDP, discharge us from any liability to that Shareholder in respect of that payment.

### **Bonus and Rights Issue**

Our Board of Directors may, with the approval of our Shareholders at a general meeting, capitalise any reserves or profits (including profits or monies carried and standing to any reserve or to the share premium account) and distribute the same as bonus shares credited as paid-up to our Shareholders in the proportion to their shareholdings. Our Board of Directors may also issue rights to take up additional ordinary shares to other Shareholders in proportion to their shareholdings. Such rights are subject to any conditions attached to such issue and the regulations of any stock exchange on which we are listed.

### **Take-overs**

The Securities and Futures Act and the Singapore Code on Take-overs and Mergers ("Singapore Take-over Code") regulate the acquisition of ordinary shares of public companies and contain certain provisions that may delay, deter or prevent a future takeover or change in control of our Company. Any person acquiring an interest, either on his own or together with parties acting in concert with him, in 30.0 per cent. or more of our voting shares must extend a takeover offer for the remaining voting shares in accordance with the provisions of the Singapore Take-over Code. "Parties acting in concert" includes and is not limited to a company and its directors (including their relatives), a company and its pension funds, a person and any investment company, unit trust or other client in respect of shares held by the financial advisor on a discretionary basis. An offer for consideration other than cash must be accompanied by a cash alternative at not less than the highest price paid by the offeror or the parties acting in concert with the offeror within the preceding 6 months. A mandatory takeover offer is also required to be made if a person holding, either on his own or together with parties acting in concert with him, between 30.0 per cent. and 50.0 per cent. of the voting shares acquires additional voting shares representing more than 1.0 per cent. of the voting shares in any 6-month period.

### **Liquidation or Other Return of Capital**

If we liquidate or in the event of any other return of capital, holders of our ordinary shares will be entitled to participate in any surplus assets in proportion to their shareholdings, subject to any special rights attaching to any other class of shares.

### **Indemnity**

As permitted by Singapore law, our Articles provide that, subject to the Companies Act, our Board of Directors and officers shall be entitled to be indemnified by us against any liability incurred in defending any proceedings, whether civil or criminal, which relate to anything done or omitted to have been done as an officer, director or employee and in which judgement is given in their favour or in which they are acquitted or in connection with any application under any statute for relief from liability in respect thereof in which relief is granted by the court. We may not indemnify our Directors and officers against any liability which by law would otherwise attach to them in respect of any negligence, default, breach of duty or breach of trust of which they may be guilty in relation to us.

### **Limitations on Rights to Hold or Vote Shares**

Except as described in "Voting Rights" and "Takeovers" above, there are no limitations imposed by Singapore law or by our Articles on the rights of non-resident Shareholders to hold or vote ordinary shares.

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## DESCRIPTION OF OUR ORDINARY SHARES

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### Minority Rights

The rights of minority shareholders of Singapore incorporated companies are protected under Section 216 of the Companies Act, which gives the Singapore courts a general power to make any order, upon application by any of our Shareholders, as they think fit to remedy any of the following situations:-

- our affairs are being conducted or the powers of our Board of Directors are being exercised in a manner oppressive to, or in disregard of the interests of, one or more of the Shareholders; or
- we take an action, or threaten to take an action, or our Shareholders pass a resolution, or propose to pass a resolution, which unfairly discriminates against, or is otherwise prejudicial to one or more of our Shareholders, including the applicant.

Singapore courts have a wide discretion as to the reliefs they may grant and those reliefs are in no way limited to those listed in the Act itself. Without prejudice to the foregoing, Singapore courts may:-

- direct, or prohibit any act or cancel or vary any transaction or resolution; regulate the conduct of our affairs in future;
- authorise civil proceedings to be brought in our name, or on our behalf, by a person or persons and on such terms as the court may direct;
- provide for the purchase of a minority Shareholder's shares by our other Shareholders or by us and, in the case of a purchase of shares by us, a corresponding reduction of our share capital;
- in the case of a purchase of shares by the company, provide for a reduction accordingly of the company's capital; or
- provide that we be wound up.

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## TAXATION

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### Singapore Taxation

*The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as at the date of this Prospectus, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur. The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of the Shares by Singapore investors, and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase the Shares. Prospective investors should consult their tax advisers regarding Singapore tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither our Company, the Directors nor any other persons involved in the Invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares. Any dividend payable by our Company on the Shares will be declared and paid to shareholders in Singapore currency.*

### Singapore Taxation

The following is a discussion of certain tax matters arising under the current tax laws in Singapore and is not intended to be and does not constitute legal or tax advice. While this discussion is considered to be a correct interpretation of existing laws in force as of the date of this Prospectus, no assurance can be given that courts or fiscal authorities responsible for the administration of such laws will agree with this interpretation or that changes in such laws will not occur.

The discussion is limited to a general description of certain tax consequences in Singapore with respect to ownership of the Shares by Singapore investors and does not purport to be a comprehensive nor exhaustive description of all of the tax considerations that may be relevant to a decision to purchase the Shares.

Prospective investors should consult their tax advisers regarding Singapore tax and other tax consequences of owning and disposing the Shares. It is emphasised that neither the Company, the Directors nor any other persons involved in the invitation accepts responsibility for any tax effects or liabilities resulting from the subscription for, purchase, holding or disposal of the Shares.

### Income Tax

#### General

Singapore tax-resident taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore and on foreign income received or deemed received in Singapore.

However, foreign income in the form of branch profits, dividends and service income ("specified foreign income") received or deemed received in Singapore on or after 1 June 2003 by a resident taxpayer are exempt from tax in Singapore provided the following conditions are met:

- (a) such income is subject to tax of a similar character to income tax under the law of the jurisdiction from which such income is received;
- (b) at the time the income is received in Singapore, the highest rate of tax of a similar character to income tax in the jurisdiction from which the income is received is at least 15%; and
- (c) the Singapore Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the recipient of the foreign income.

As a concession, the "Subject to tax condition" in (a) above would, with effect from 1 July 2004, be considered met for specified foreign income which are exempt from tax in the foreign jurisdiction from which the specified foreign income is received if the exemption is due to a tax incentive granted by the foreign jurisdiction for carrying out substantive business activities in that jurisdiction. Generally, substantive business activities refer to business activities that are carried out through staff with certain expertise and actual expenditure is incurred to carry out the activities.

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## TAXATION

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In addition, all foreign-sourced personal income received or deemed received in Singapore by a Singapore tax resident individual (except where such income is received through a partnership) on or after 1 January 2004 will be exempt from tax in Singapore if the Singapore Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the individual. Certain investment income derived from Singapore sources by individuals on or after 1 January 2004 will also be exempt from tax.

Non-Singapore tax-resident corporate taxpayers are subject to Singapore income tax on income accruing in or derived from Singapore, and on foreign income received or deemed received in Singapore, subject to certain exceptions. Non-Singapore tax-resident individuals, subject to certain exceptions, are subject to Singapore income tax only on income accruing in or derived from Singapore.

A company is regarded as a tax resident in Singapore if the control and management of its business is exercised in Singapore. An individual is regarded as a tax resident in Singapore in a year of assessment if, in the preceding calendar year, he was physically present in Singapore or exercised an employment in Singapore (other than as a director of a company) for 183 days or more, or if he ordinarily resides in Singapore.

The corporate tax rate in Singapore is 20% for the year of assessment 2005 i.e. the financial year ended in 2004. In addition, 75% of up to the first S\$10,000 of a company's normal chargeable income, and 50% of up to the next S\$90,000 is exempt from corporate tax. The remaining chargeable income (after the partial tax exemption) will be taxed at 20%. The above partial tax exemption will not apply to Singapore dividends received by companies.

Singapore tax-resident individuals are subject to tax based on progressive rates, currently ranging from 0% to 22% (from Year of Assessment 2003 onwards). The Minister for Finance has, in the 2004 Budget Statement, reaffirmed the Government's intention to reduce the top individual marginal tax rate to 20%. No date, however, has been set.

Non-Singapore resident individuals are generally subject to tax at a rate equivalent to the prevailing corporate tax rate.

### ***Dividend Distributions***

Prior to 1 January 2003, Singapore adopted a full imputation system to all dividends (other than normal exempt dividends) paid by companies resident in Singapore. Under the imputation system, the tax paid by the company at the prevailing corporate tax rate is deemed to be paid by its shareholders and thus, the shareholders received dividends net of the tax paid by the company. The corporate tax paid by the company effectively became available to its shareholders as a tax credit to offset their overall Singapore income tax liability. If the amount of Singapore tax payable by the shareholder was less than the tax credit, the shareholder was entitled a refund on the difference from the IRAS.

A non-resident shareholder was effectively taxed on dividends at the corporate tax rate. Thus, no further Singapore income tax was imposed on the net dividend received by a non-resident holder of the Singapore company's shares.

With effect from 1 January 2003, the imputation system has been replaced by a new "one-tier" system.

Under this system which takes effect from 1 January 2003, the tax collected from corporate profits is final and any Singapore dividends paid by a Singapore resident company are tax exempt in the hands of the shareholder (individual or corporate) regardless of whether the shareholder is a Singapore tax resident.

As the Company is incorporated on 28 December 2004 and will be a Singapore tax resident, it would be under the one-tier system and the dividends paid by the Company would be tax exempt to the Shareholders.

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## TAXATION

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### ***Gains on Disposal of the Shares***

Singapore currently does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterisation of gains. In general, gains may be construed to be of an income nature and subject to Singapore income tax if they arise from activities which the Singapore Comptroller of Income Tax regards as the carrying on of a trade or business in Singapore.

Thus, any profits from the disposal of the Shares if regarded as capital profits are not taxable in Singapore unless the seller is regarded by Singapore Comptroller of Income Tax as having derived these profits from the carrying on of a trade or business in Singapore, in which case, the disposal profits would be taxable as trading profits.

### ***Bonus shares***

Any bonus shares received by the shareholders are not taxable.

### ***Stamp duty***

There is no stamp duty payable in Singapore on the subscription of the Shares.

Stamp duty is payable in Singapore on an instrument of transfer of the Shares at the rate of S\$0.2 for every S\$100 or any part thereof of the consideration for the Shares.

The purchaser is liable for stamp duty, unless there is an agreement to the contrary. No stamp duty is payable if no instrument of transfer is executed or the instrument of transfer is executed outside Singapore. However, stamp duty may be payable if the instrument of transfer which is executed outside Singapore is received in Singapore.

The above stamp duty is not applicable to electronic transfers of the Shares through the CDP since such transfer does not require an instrument of transfer to be executed.

### ***Estate duty***

Singapore estate duty is imposed on the value of immovable property situated in Singapore and on movable property, wherever it may be, owned by individuals who are domiciled in Singapore, subject to specific exemption limits.

Singapore estate duty is imposed on the value of certain immovable property situated in Singapore owned by individuals who at the time of his death (on or after 1 January 2002) was not domiciled in Singapore, i.e. all Singapore movable assets of such persons will be exempt from Singapore estate duty.

Our Company's Shares are considered movable property situated in Singapore. Accordingly, any Shares held by an individual who is domiciled in Singapore would be subject to Singapore estate duty upon the individual's death.

Singapore estate duty is payable to the extent that the value of the Shares aggregated with any other dutiable assets exceeds S\$600,000. Unless other exemptions apply to the other assets, for example, the separate exemption limit for residential properties, any excess beyond S\$600,000 will be taxed as follows:-

First S\$12,000,000	5%
Excess over S\$12,000,000	10%

Individuals, whether or not domiciled in Singapore should consult their own tax advisors regarding the Singapore estate duty consequences of their ownership of the Shares.

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## TAXATION

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### **Goods and Services Tax (“GST”)**

#### ***General***

The sale of shares is considered a supply of services for GST purposes. Generally, a supply of services made by a GST-registered person is subject to GST at the current rate of 5% unless the supply of services can qualify for zero-rating (i.e. charge GST at 0%) under Section 21(3) of the GST Act or is exempt under the Fourth Schedule to the GST Act.

#### ***On Acquisition***

Only GST-registered persons are allowed to charge GST on their supplies. As the Company is currently not registered for GST, there should not be any GST issues with respect to the acquisition of shares in the Company.

#### ***On Sales***

The sale of shares by a GST-registered investor through the Singapore exchange or to another person belonging in Singapore qualifies for exemption under the Fourth Schedule to the GST Act. However, any input GST which is incurred by the investor in making exempt supplies is not recoverable from the Comptroller. This is only applicable if the GST-registered investor is not a financial institution since most financial institutions are subject to fixed input tax recovery rate prescribed by the Comptroller. However, if the sale of shares by a GST-registered investor is made to another person belonging outside Singapore, and that person is outside Singapore when the sale is executed, the sale would qualify for zero-rating under Section 21(3). Input GST which is incurred by the investor in making zero-rated supplies is fully recoverable from the Comptroller.

#### ***Other Incidental Charges***

Brokerage, handling and clearing fees in connection with the purchase, sale or acquisition of shares charged by a GST-registered person to an investor belonging to Singapore is subject to GST at the current rate of 5%. Similar services rendered to an investor belonging outside Singapore should qualify for zero-rating provided that the investor is outside Singapore when the services are performed and the services provided do not benefit any Singapore persons.

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## CLEARANCE AND SETTLEMENT

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Upon listing and quotation on SGX-ST, our Shares will be traded under the book-entry settlement system of the CDP, and all dealings in and transactions of the Shares through SGX-ST will be effected in accordance with the terms and conditions for the operation of securities accounts with the CDP, as amended from time to time.

Our Shares will be registered in the name of CDP or its nominee and held by CDP for and on behalf of persons who maintain, either directly or through Depository agents, securities accounts with CDP. Persons named as direct securities account holders and Depository agents in the Depository register maintained by the CDP, rather than CDP itself, will be treated, under our Articles of Association and the Companies Act, as members of our Company in respect of the number of Shares credited to their respective securities accounts.

Persons holding our Shares in securities account with CDP may withdraw the number of Shares they own from the book-entry settlement system in the form of physical share certificates. Such share certificates will, however, not be valid for delivery pursuant to trades transacted on SGX-ST, although they will be *prima facie* evidence of title and may be transferred in accordance with our Articles of Association. A fee of S\$10.00 for each withdrawal of 1,000 Shares or less and a fee of S\$25.00 for each withdrawal of more than 1,000 Shares is payable upon withdrawing the Shares from the book-entry settlement system and obtaining physical share certificates. In addition, a fee of S\$2.00 or such other amount as our Directors may decide, is payable to the share registrar for each share certificate issued and a stamp duty of S\$10.00 is also payable where our Shares are withdrawn in the name of the person withdrawing our Shares or S\$0.20 per S\$100.00 or part thereof of the last-transacted price where it is withdrawn in the name of a third party. Persons holding physical share certificates who wish to trade on SGX-ST must deposit with CDP their share certificates together with the duly executed and stamped instruments of transfer in favour of CDP, and have their respective securities accounts credited with the number of Shares deposited before they can effect the desired trades. A fee of S\$20.00 is payable upon the deposit of each instrument of transfer with CDP.

Transactions in our Shares under the book-entry settlement system will be reflected by the seller's securities account being debited with the number of Shares sold and the buyer's securities account being credited with the number of Shares acquired. No transfer of stamp duty is currently payable for our Shares that are settled on a book-entry basis.

A Singapore clearing fee for trades in our Shares on the SGX-ST is payable at the rate of 0.05 per cent. of the transaction value subject to a maximum of S\$200.00 per transaction. The clearing fee, instrument of transfer deposit fee and share withdrawal fee may be subject to Singapore Goods and Services Tax at the prevailing rate of 5%.

Dealings of our Shares will be carried out in Singapore dollars and will be effected for settlement on CDP on a scripless basis. Settlement of trades on a normal "ready" basis on the SGX-ST generally takes place on the third Market Day following the transaction date, and payment for the securities is generally settled on the following business day. CDP holds securities on behalf of investors in securities accounts. An investor may open a direct account with CDP or a sub-account with a CDP depository agent. The CDP depository agent may be a member company of the SGX-ST, bank, merchant bank or trust company.



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## GENERAL AND STATUTORY INFORMATION

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### INFORMATION ON DIRECTORS AND EXECUTIVE OFFICERS

1. The name, age, address, principal occupation and business and working experience of each of our Directors and Executive Officers are set out in the section entitled “Directors, Management and Staff” in this Prospectus.
2. The present and past directorships other than directorship held in our Company (held in the five years preceding the Date of this Prospectus) of each of our Directors, in other companies are set out in the section entitled “Directors, Management and Staff” in this Prospectus.
3. The present and past directorships (held in the five years preceding the Date of this Prospectus) of each of our Executive Officers are set out in the section entitled “Directors, Management and Staff” in this Prospectus.
4. Save as disclosed hereinafter, none of our Directors or Executive Officers is or was involved in any of the following events:-
  - (a) during the last ten years, a petition under any bankruptcy laws of any jurisdiction filed against him or against a partnership of which he was a partner;
  - (b) during the last ten years, a petition under any law of any jurisdiction filed against a corporation of which he was a director or key executive for the winding-up of that corporation on the ground of insolvency;
  - (c) any unsatisfied judgments against him;
  - (d) a conviction of any offence, in Singapore or elsewhere, involving fraud or dishonesty which is punishable with imprisonment for three months or more, or any criminal proceedings (including any pending criminal proceedings which he is aware of) for such purpose;
  - (e) a conviction of any offence, in Singapore or elsewhere, involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or any criminal proceedings (including pending criminal proceedings which he is aware of) for such breach;
  - (f) during the last ten years, judgement entered against him in any civil proceeding in Singapore or elsewhere involving a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, or a finding of fraud, misrepresentation or dishonesty on his part, or any civil proceedings (including any pending civil proceedings which he is aware of) involving an allegation of fraud, misrepresentation or dishonesty on his part;
  - (g) a conviction in Singapore or elsewhere of any offence in connection with the formation or management of any corporation;
  - (h) disqualification from acting as a director of any corporation, or from taking part directly or indirectly in the management of any corporation;
  - (i) the subject of any order, judgement or ruling of any court, tribunal or governmental body permanently or temporarily enjoining him from engaging in any type of business practice or activity; and
  - (j) to his knowledge, been concerned with the management or conduct, in Singapore or elsewhere, of affairs of
  - (k) any corporation which has been investigated for a breach of any law or regulatory requirement governing corporations in Singapore or elsewhere; or

## GENERAL AND STATUTORY INFORMATION

- (l) any corporation or partnership which has been investigated for a breach of any law or regulatory requirement that relates to the securities or futures industry in Singapore or elsewhere, in connection with any matter occurring or arising during the period when he was so concerned with the corporation or partnership.
5. The aggregate remuneration paid to our Directors for services rendered in all capacities to our Company and our subsidiaries for FY2004 was S\$589,000. For the current financial year, the aggregate remuneration payable to Directors by our Group is estimated to be S\$990,000.
  6. Save as disclosed in the section entitled "Service Agreements" in this Prospectus, there are no existing or proposed service contracts between our Executive Directors or Executive Officers and our Company or any of our subsidiaries.
  7. There is no shareholding qualification for Directors under the Articles of Association of our Company.
  8. No option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries has been granted to, or was exercised by, any of our Directors or Executive Officers within the last financial year.
  9. None of our Directors is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the date of this Prospectus, been acquired or disposed of by or leased to, our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.
  10. None of our Directors or Executive Officers or Substantial Shareholder of our Company has any substantial interest, direct or indirect, in any company carrying on a similar trade as our Company or our subsidiaries.
  11. The interests of our Directors, Executive Officers and Substantial Shareholder in our Shares as at the Date of this Prospectus are as follows:-

	Before Invitation			
	Direct interest		Deemed interest	
	Number of Shares	%	Number of Shares	%
<b>Directors</b>				
Lim Siang Kai	—	—	—	—
Teo Cher Koon	—	—	121,591,700	92.25
Kong Deyang	—	—	—	—
Tay Gim Sin Leonard	527,000	0.40	—	—
Soh Beng Keng	—	—	—	—
<b>Executive Officers</b>				
Cheng Hock Kiang	1,054,000	0.80	—	—
Chow Ka Man	4,085,000	3.10	—	—
Han Moo Juan	658,000	0.50	—	—
Lau Choon Guan	1,054,000	0.80	—	—
Lim Bee Teng	—	—	—	—
Sim Leong Seang	1,054,000	0.80	—	—
Udom Warasatian	—	—	—	—
Wong Kwok Whye Peter	790,700	0.60	—	—
<b>Substantial Shareholder</b>				
Assetraise Holdings Limited	121,591,700	92.25	—	—

## GENERAL AND STATUTORY INFORMATION

### SHARE CAPITAL

12. As at the Date of this Prospectus, there is only one class of shares in the capital of our Company. There are no founder, management or deferred shares. The rights and privileges attached to our Shares are stated in the Articles of Association of our Company.
13. Save as disclosed below and in the section entitled “Share Capital” in this Prospectus, there are no changes in the issued and paid-up share capital of our Company and our subsidiaries within the three years preceding the date of this Prospectus:-

#### Singapore Subsidiaries

Name of Company / Date of issue	No. of ordinary shares issued	Par Value S\$	Issue Price / Consideration S\$	Purpose	Resultant issued share capital S\$
Leaptron Engineering Pte Ltd 15 September 2003	299,998	1	299,998	To provide working capital for the company	300,000
Portwell Singapore Pte Ltd 5 June 2003	99,998	1	99,998	To provide working capital for the company	100,000
Motion Control Group Pte Ltd 21 December 2004	2	1	2	To incorporate the company	2
ISDN Holdings Pte Ltd 28 December 2004	2	1	2	To incorporate the company	2

#### PRC Subsidiaries

Name of Company / Date of issue	Increase of registered capital	Purpose	Registered capital
SD Suzhou 16 March 2004	US\$420,000	To provide additional working capital for the company	US\$630,000
Delta Automation 4 November 2004	RMB500,000	To provide working capital for the company upon incorporation	RMB500,000

#### Thai Subsidiary

Name of Company / Date of issue	No. of ordinary shares issued	Par Value THB	Issue Price / Consideration THB	Purpose	Resultant issued share capital THB
SD Thailand 19 November 2003	16,000	100	1,600,000	To provide additional working capital for the company	4,600,000

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## GENERAL AND STATUTORY INFORMATION

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14. Save as disclosed in paragraph 13 above, no shares in, or debentures of, our Company or any of our subsidiaries have been issued, or are proposed to be issued, as fully or partly paid for cash or for a consideration other than cash, during the last two years.
15. No person has been, or is entitled to be, granted an option to subscribe for shares in, or debentures of, our Company or any of our subsidiaries.

### MEMORANDUM AND ARTICLES OF ASSOCIATION

16. **Articles of Association**

The following provisions in the Articles of Association of our Company relate to inter alia the transfer of shares, voting rights of shareholders and Directors' shareholding qualification, remuneration, borrowing powers and voting rights on proposals, arrangements or contracts in which they are interested:-

**(1) *The following provisions of the Articles of Association of our Company relate to the remuneration, restrictions on voting rights and borrowing powers of the Directors.***

**(a) Directors' Remuneration**

**Article 101(3)**

An alternate Director shall be entitled to contract and be interested in and benefit from contracts, arrangements or transactions to the same extent mutatis mutandis as if he were a Director but he shall not be entitled to receive from the Company any remuneration in respect of his appointment as alternate Director except only such part (if any) of the remuneration otherwise payable to his appointor in which event any fee paid by the Company to an alternate Director shall be deducted from the fees of the Director appointing the alternate.

**Article 102(1)**

The Directors shall be entitled to receive by way of fees for their services as Directors in each year such sum as shall from time to time, subject to Section 169 of the Act, be determined by the Company by resolution passed at a General Meeting, the notice of which shall specify the proposals concerning the same. Such remuneration shall be divided amongst the Directors as they shall determine or failing agreement equally.

**Article 102(2)**

The fees payable to the Directors shall not be increased except pursuant to a resolution passed at a General Meeting, where notice of the proposed increase has been given in the notice convening the Meeting.

**Article 102(3)**

The remuneration of a non-executive Director shall be by a fixed sum and not by a commission on or percentage of profits or turnover. The remuneration of an executive Director may not include a commission on or a percentage of turnover.

**Article 102(4)**

The provisions of this Article are without prejudice to the power of the Directors to appoint any of their number to be employee or agent of the Company at such remuneration and upon such terms as they think fit without the approval of the Members in General Meeting provided that such remuneration may include a commission on or percentage of profits but not a commission on or percentage of turnover.

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## GENERAL AND STATUTORY INFORMATION

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### Article 102(5)

Subject to the provisions of the Statutes, the Directors shall have power to pay and agree to pay pensions or other retirement, superannuation, death or disability benefits to (or to any person in respect of) any Director for the time being holding any executive office and for the purpose of providing any such pensions or other benefits to contribute to any scheme of fund to pay premiums.

### Article 103

If any Director, being willing and having been called upon to do so, shall hold an executive office in the Company, shall render or perform extra or special services of any kind, including services on any committee established by the Directors, or shall travel or reside abroad for any business or purposes of the Company, he shall be entitled to receive such sum as the Directors may think fit for expenses, and also such remuneration as the Directors may think fit, either as a fixed sum or as provided in Article 102(3) (but not by way of commission on or percentage of turnover) and such remuneration may, as the Directors shall determine, be either in addition to or in substitution for any other remuneration he may be entitled to receive, and the same shall be charged as part of the ordinary working expenses of the Company.

### Article 105(3)

A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending Director shall be disqualified by his office from contracting with our Company either with regard to his tenure of any such other office or place of profit or as a vendor, purchaser or otherwise. Subject to this Article 105, no such contract and no contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested shall be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

### Article 114

The Directors shall (subject to the provisions of any contract between the Managing Director and the Company) from time to time fix the remuneration of the Managing Director which may be by way of fixed salary, commission or participation in profits (but not turnover) of the Company or by any or all of these modes.

## **(b) Restrictions on Voting Rights of Directors**

### Article 105(1)

A Director who is in any way whether directly or indirectly interested in a contract or proposed contract with the Company shall declare the nature of his interest at a meeting of the Directors in accordance with Section 156 of the Act.

### Article 105(2)

A Director shall not vote in respect of any contract or proposed contract or arrangement in which he has directly or indirectly a personal material interest and if he shall do so his vote shall not be counted nor save as provided by Article 106 shall he be counted in the quorum present at the meeting.

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## GENERAL AND STATUTORY INFORMATION

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### Article 105(3)

A Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending Director shall be disqualified by his office from contracting with the Company either with regard to his tenure of any such other office or place of profit or as a vendor, purchaser or otherwise. Subject to this Article 105, no such contract and no contract or arrangement entered into by or on behalf of the Company in which any Director is in any way interested shall be liable to be avoided nor shall any Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established.

### Article 106

Subject to Article 105(2) above, a Director notwithstanding his interest may be counted in the quorum present at any meeting whereat he or any other Director is appointed to hold any such office or place of profit under the Company or whereat the terms of any such appointment are arranged.

## (c) **Borrowing Powers of Directors**

### Article 62

The Directors may, from time to time, exercise all the powers of the Company to raise or borrow or secure the payment of any sum or sums of monies for the purposes of the Company

### Article 63

The Directors may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit, and, in particular, by the issue of debentures or debenture stock of the Company, perpetual or otherwise, charged upon or by mortgage charge or lien of and on the undertaking of the whole or any part of the property of the Company (both present and future), including its uncalled capital for the time being, or by making, accepting, endorsing or executing any cheque, promissory note or bill of exchange.

## (2) ***The following provisions of the Articles of Association of the Company relate to the variation of members' rights, the transfer of shares and voting rights of members:-***

### (a) **Variation of Members' Rights**

#### Article 9

Subject to the provisions of the Statutes, all or any of the special rights or privileges for the time being attached to any preference share for the time being issued may from time to time (whether or not the Company is being wound up) be modified, affected, altered or abrogated and preference capital other than redeemable preference shares may be repaid if authorised by a Special Resolution passed by holders of such preference shares at a special meeting called for the purpose. To any such special meeting, all provisions of these Articles as to General Meetings of the Company shall mutatis mutandis apply but so that the necessary quorum shall be two persons at least holding or representing by proxy not less than one third of the issued preference shares concerned and that every holder of the preference shares concerned shall be entitled on a poll to one vote for every such share held by him and that any holder of the preference shares concerned present either in person or by

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## GENERAL AND STATUTORY INFORMATION

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proxy may demand a poll Provided Always that where the necessary majority for such a Special Resolution is not obtained at the meeting, consent in writing if obtained from holders of three-fourths of the preference shares concerned within two months of the meeting shall be as valid and effectual as a Special Resolution carried at the meeting.

### Article 61

Subject to the Statutes and save as provided by these Articles, all or any of the special rights or privileges attached to any class of shares in the capital of the Company for the time being issued may, at any time, as well before as during liquidation, be modified, affected, altered or abrogated, either with the consent in writing of the holders of not less than three-fourths of the issued shares of the class or with the sanction of a Special Resolution passed at a separate General Meeting, but so that the quorum thereof shall be not less than two persons personally present and holding or representing by proxy one-third of issued shares of the class, and that any holder of shares of the class, present in person or by proxy, shall on a poll be entitled to one vote for each share of the class held or represented by him, and if at any adjourned meeting of such holders such quorum as aforesaid is not present, any two holders of shares of the class who are personally present shall be a quorum. The Directors shall comply with the provisions of Section 186 of the Act as to forwarding a copy of any such consent or Resolution to the Registrar of Companies.

### **(b) Transfer of Shares**

#### Article 40

Save as provided by these Articles, there shall be no restriction on the transfer of fully paid shares (except where required by law or by the rules, bye-laws or listing rules of the Exchange). All transfers of shares may be effected by way of book-entry in the Depository Register Provided Always that the legal title in the shares may be transferred by the registered holders thereof by an instrument of transfer in the form approved by the Directors and the Exchange. The instrument of transfer shall be left at the Office accompanied by the certificate of the shares to be transferred and such other evidence (if any) as the Directors may reasonably require to show the right of the transferor to make the transfer. The transferor shall be deemed to remain the registered holder of the shares until the name of the transferee is entered in the Register in respect thereof.

#### Article 41

The instrument of transfer shall be signed both by the transferor and by the transferee, and it shall be witnessed Provided Always that an instrument of transfer in respect of which the transferee is the Depository shall be effective although not signed or witnessed by or on behalf of the Depository.

#### Article 42

Shares of different classes shall not be comprised in the same instrument of transfer.

#### Article 43

No share shall in any circumstances be transferred to any infant, bankrupt or person of unsound mind.

#### Article 44(1)

All instruments of transfer which are registered shall be retained by the Company, but any instrument of transfer which the Directors may refuse to register shall (except in any case of fraud) be returned to the party presenting the same.



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## GENERAL AND STATUTORY INFORMATION

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### Article 44(2)

The Company shall be entitled to destroy:-

- (a) all instruments of transfer which have been registered at any time after the expiration of six years from the date of registration thereof;
- (b) all dividend mandates and notifications of change of address at any time after the expiration of six years from the date of recording thereof; and
- (c) all share certificates which have been cancelled at any time after the expiration of six years from the date of the cancellation thereof.

### Article 44(3)

It shall be conclusively presumed in favour of the Company that every entry in the Register purporting to have been made on the basis of an instrument of transfer or other document so destroyed was duly and properly made and that:

- (a) every instrument of transfer so destroyed was a valid and effective instrument duly and properly registered;
- (b) every share certificate so destroyed was a valid and effective certificate duly and properly cancelled; and
- (c) every other document hereinbefore mentioned so destroyed was a valid and effective document;

in accordance with the recorded particulars thereof in the books or records of the Company.

### Article 44(4)

Articles 44(2) and 44(3) shall apply only to the destruction of a document in good faith and without notice of any claim (regardless of the parties thereto) to which the document might be relevant.

### Article 44(5)

Nothing contained in this Article 44 shall be construed as imposing upon the Company any liability in respect of the destruction of any such document earlier than as aforesaid or in any other circumstance which would not attach to the Company in the absence of this Article 44, and references in this Article 44 to the destruction of any document include references to the disposal thereof in any manner.

### Article 45

The Directors may decline to accept any instrument of transfer unless:-

- (a) all or any part of the stamp duty (if any) payable on each share transfer and such fee not exceeding two Singapore dollars for each transfer or such other sum as may from time to time be prescribed by the Exchange is paid to the Company; and
- (b) such fee not exceeding two Singapore dollars as the Directors may from time to time determine is paid to the Company in respect of the registration of any instrument of transfer, probate, letters of administration, certificate of marriage or death, power of attorney or any document relating to or affecting the title to the shares.

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### Article 46

The Directors may refuse to register the transfer of shares or allow the entry of or against a person's name in the Depository Register in respect of shares transferred or to be transferred to such person:-

- (a) which are not fully paid up; or
- (b) on which the Company has a lien.

### Article 47

If the Directors refuse to register any transfer of any share they shall, where required by the Statutes, serve on the transferor and transferee, within one month beginning with the day on which the transfer was lodged with the Company, a notice in writing informing each of them of such refusal and of the facts which are considered to justify the refusal.

### Article 48

The Register may be closed at such times and for such periods as the Directors may from time to time determine Provided Always that the Register shall not be closed for more than thirty days in any year Provided Always that the Company shall give prior notice of such closure as may be required to the Exchange stating the period and purpose or purposes for which such closure is to be made.

## **(c) Alteration of Capital**

### Article 57

The Company in General Meeting may from time to time by Ordinary Resolution, whether all the shares for the time being authorised shall have been issued or all the shares for the time being issued have been fully paid up or not, increase its capital by the creation and issue of new shares, such aggregate increase to be of such amount and to be divided into shares of such respective amounts as the Company by the resolution authorising such increase shall direct.

### Article 58(1)

Unless otherwise determined by the Company in General Meeting or except as permitted under the Exchange's listing rules, all new shares shall, before issue, be offered to such persons who as at the date of the offer are entitled to receive notices from the Company of General Meetings, in proportion, as nearly as the circumstances admit, to the amount of the existing shares to which they are entitled.

### Article 58(2)

The offer shall be made by notice specifying the number of shares offered and limiting a time within which the offer, if not accepted, will be deemed to be declined, and, after the expiration of that time, or on the receipt of an intimation from the person to whom the offer is made that he declines to accept the shares offered, the Directors may dispose of those shares in such manner as they think most beneficial to the Company. The Directors may likewise so dispose of any new shares which (by reason of the ratio which the new shares bear to shares held by persons entitled to an offer of new shares) cannot, in the opinion of the Directors, be conveniently offered in the manner hereinbefore provided.

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### Article 59

Subject to any directions that may be given in accordance with the powers contained in the Memorandum of Association or these Articles, any capital raised by creation of new shares shall be considered as part of the original capital and all new shares shall be subject to the same provisions with reference to the payment of calls, transfer, transmission, forfeiture, lien and otherwise as if it had been part of the original capital.

### Article 60(1)

The Company may by Ordinary Resolution:-

- (a) consolidate and divide its capital into shares of larger amount than its existing shares; or
- (b) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled; or
- (c) by subdivision of its existing shares or any of them divide its capital or any part thereof into shares of smaller amount than is fixed by the Memorandum of Association. The resolution by which the subdivision is effected may determine that, as between the holders of the resulting shares, one or more of such shares may have any such preferred, deferred or other special rights or be subject to any restriction as the Company has power to attach to unissued or new shares; or
- (d) subject to the Statutes, convert any class of shares into any other class of shares.

### Article 60(2)

The Company may by Special Resolution reduce its share capital, any capital redemption reserve fund or any share premium account in any manner and with and subject to any requirement authorised and consent required by law.

## **(d) Voting Rights of Members**

### Article 10

Preference to shareholders shall have the same rights as ordinary Members with regard to the receiving of notices, reports and balance sheets and the attending of General Meetings of the Company. Preference shareholders shall also have the right to vote at any meeting convened for the purpose of reducing the capital of the Company or winding up or sanctioning the sale of the undertaking of the Company or where the proposal to be submitted to the meeting directly affects their rights and privileges or when the dividend on the preference shares is more than six months in arrears.

### Article 13(3)

The joint holder first named in the Register or the Depository Register, as the case may be, shall as with regard to voting, proxy, service of notices and delivery of certificates and dividend warrants, be deemed to be the sole owner of such share.

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### Article 80

At every General Meeting a resolution put to the vote of the meeting shall be decided on a show of hands by the Members present in person and entitled to vote, unless before or upon the declaration of the result of the show of hands a poll be demanded by:-

- (a) the Chairman of the meeting; or
- (b) not less than two Members present in person or by proxy and entitled to vote; or
- (c) a Member or Members present in person or by proxy, holding or representing, as the case may be:-
  - (i) not less than one-tenth of the total voting rights of all Members entitled to vote at the meeting; or
  - (ii) shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

### Article 81(1)

If a poll is duly demanded it shall be taken in such manner as the Chairman directs, and the results of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded.

### Article 81(2)

No poll shall be demanded on the election of a Chairman of a meeting or on a question of adjournment. A poll demanded on any other question shall be taken at such time as the Chairman of the meeting directs.

### Article 82

Unless a poll be so demanded, a declaration by the Chairman of the meeting that a resolution has been carried, or has been carried by a particular majority, or lost, or not carried by a particular majority shall be conclusive, and an entry to that effect in the minute book of the Company shall be conclusive evidence thereof, without proof of the number or proportion of the votes recorded in favour of or against such resolution.

### Article 83(1)

No objection shall be raised as to the admissibility of any vote except at the meeting or adjourned meeting, as the case may be, at which the vote objected to is or may be given, tendered or cast, and every vote not disallowed at such meeting shall be valid for all purposes. Any such objection shall be referred to the Chairman of the meeting whose decision shall be final and conclusive.

### Article 83(2)

If any votes shall be counted which ought not to have been counted, or might have been rejected, the error shall not vitiate the result of the voting unless it be pointed out at the same meeting, or at any adjournment thereof, and unless in the opinion of the Chairman at the meeting or at any adjournment thereof as the case may be, it shall be of sufficient importance to vitiate the result of the voting.

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### Article 84

In case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting at which the show of hands takes place or at which the poll is demanded, as the case may be, shall have a second or casting vote.

### Article 85(1)

Subject to and without prejudice to any special privileges or restriction as to voting for the time being attached to any special class of shares for the time being forming part of the capital of the Company:-

- (a) every Member who is present in person or by proxy shall have one vote on a show of hands, the Chairman to decide which proxy shall be entitled to vote where a Member is represented by two proxies; and
- (b) every Member who is present in person or by proxy, in case of a poll, shall have one vote for every share which he holds or represents and upon which all calls or other sums due thereon to the Company have been paid.

### Articles 85(2)

For the purpose of determining the number of votes which a Member, being a Depositor, or his proxy may cast at any General Meeting upon a poll being called, the number of shares held or represented shall, in relation to the shares of that Depositor, be the number of shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company.

### Articles 86

In the case of joint holders the vote of the senior who tenders a vote whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the Register or the Depository Register, as the case may be.

### Articles 87

Unless the Directors otherwise determine, no person other than a Member who shall have paid everything for the time being due from him and payable to the Company in respect of his shares, shall be entitled to be present or to vote on any question either personally or by proxy at any General Meeting.

### Articles 88

A Member of unsound mind, or in respect of whom an order has been made by any Court having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll by the committee, curator bonis, or other person in the nature of committee or curator bonis appointed by that Court, and any such committee, curator bonis, or other person may, on a poll, vote by proxy.

### Articles 89

On a poll, votes may be given either personally or by proxy and a person entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

### Articles 90(1)

A proxy need not be a Member.

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### Articles 90(2)

A Member shall not be entitled to appoint more than two proxies to attend and vote at the same General Meeting Provided Always that where the Member is a Depositor, the Company shall be entitled and bound:-

- (a) to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company;
- (b) to accept as the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at the Cut-Off Time as certified by the Depository to the Company, whether that number be greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor; and
- (c) in determining rights to vote and other matters in respect of a completed instrument of proxy submitted to it, to have regard to the instructions (if any) given by and the notes (if any) set out in the instrument of proxy.

### Article 90(3)

In any case where a form of proxy appoints more than one proxy, the proportion of the shareholding concerned to be represented by each proxy shall be specified in the form of proxy. If no proportion is specified, the Company shall be entitled to treat the first named proxy as representing the entire number of shares entered against his name in the Depository Register and any second named proxy as an alternate to the first named or at the Company's option to treat the instrument of proxy as invalid.

### Article 91

Any corporation which is a Member may, by resolution of its directors or other governing body, authorise any person to act as its representative at any meetings of the Company or any class of Members of the Company, and such representative shall be entitled to exercise the same powers on behalf of the corporation which he represents as if he had been an individual shareholder.

### Article 92

An instrument appointing a proxy shall be in writing in any usual or common form (including the form approved from time to time by the Depository) or in any other form which the Directors may approve and:-

- (1) in the case of an individual shall be signed by the appointor or his attorney;
- (2) in the case of a corporation shall be either given under its common seal or signed on its behalf by an attorney or a duly authorised officer of the corporation.

### Article 93

Where an instrument appointing a proxy is signed on behalf of the appointor by an attorney, the letter or the power of attorney or other authority, if any, or a duly certified copy thereof shall (failing previous registration with the Company) if required by law, be duly stamped and be deposited at the Office, not less than forty-eight hours before the time for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid.

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### Article 94

The signature on an instrument of proxy need not be witnessed.

### Article 95

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death of the principal or revocation of the proxy or transfer of the share in respect of which the vote is given Provided Always that no notice in writing of the death or revocation or transfer shall have been received at the Office one hour at least before the time fixed for holding the meeting.

### Article 96

An instrument appointing a proxy shall be deemed to confer authority to demand or join in demanding a poll and to speak at the meeting.

### Article 97

Where the capital of the Company consists of shares of different monetary denominations, voting rights shall be prescribed in such manner that a unit of capital in each class, when reduced to a common denominator, shall carry the same voting power when such right is exercisable.

### **(3) *The following provisions of the Articles of Association of the Company relate to the Dividend Rights***

#### Article 135

The profits of the Company, subject to any special rights relating thereto created or authorised to be created by these Articles and subject to the provisions of these Articles as to the reserve fund shall be divisible among the Members in proportion to the amount of capital paid up on the shares held by them respectively.

#### Article 136

The Company in General Meeting may by Ordinary Resolution declare a dividend on or in respect of any share to the Members according to their rights and interest in the profits and may fix the time for payment. No larger dividend shall be declared than is recommended by the Directors but the Company in General Meeting may declare a smaller dividend.

#### Article 137

No dividend shall be payable except out of the profits of the Company. No dividend shall carry interest.

#### Article 138

The declaration of the Directors as to the net profits of the Company shall be conclusive.

#### Article 139

The Directors may from time to time pay to the Members such interim dividends as in their judgement the position of the Company justifies provided no such dividends shall be declared more than once in six months.

#### Article 140

The Directors may retain any dividends on which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities, or engagements in respect of which the lien exists.



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### Article 141

A transfer of shares shall not pass the right to any dividend declared thereon before the registration of the transfer or the entry of the shares against the Depositor's name in the Depository Register, as the case may be.

### Article 142

Any General Meeting declaring a dividend may direct payment of such dividend wholly or in part by the distribution of specific assets, and in particular of wholly or partly paid-up shares, debentures, or debenture stock of the Company, or wholly or partly paid-up shares, debentures, or debenture stock of any other company, or in any one or more of such ways, and the Directors shall give effect to such resolution; and where any difficulty arises in regard to the distribution, they may settle the same as they think expedient, and in particular may issue fractional certificates, and may fix the value for distribution of such specific assets, or any part thereof and may determine that cash payments shall be made to any Member upon the footing of the value so fixed, in order to adjust the rights of all parties, and may vest any such specific assets in trustees upon such trusts for the persons entitled to the dividends as may seem expedient to the Directors. Where required, a proper contract shall be filed in accordance with Section 63 of the Act, and the Directors may appoint any person to sign such contract on behalf of the persons entitled to the dividend, and such appointment shall be effective.

### Article 143

The Directors may retain the dividends payable upon shares in respect of which any person is under the provisions as to the transmissions of shares hereinbefore contained entitled to become a Member, or which any person under those provisions is entitled to transfer until such person shall become a Member in respect of such shares or shall duly transfer the same.

### Article 144

In case several persons are registered in the Register or entered in the Depository Register, as the case may be, as the holders of any share, any resolution of the Directors or the Company in General Meeting declaring a dividend on shares of any class may specify that the dividend shall be payable to such persons at the close of business on a particular date and thereupon the dividend shall be payable in accordance with their respective holdings so registered. Any person registered in the Register or in the Depository Register, as the case may be, as the holder or joint holder of any share or is entitled jointly to a share in consequence of the death or bankruptcy of the holder may give effectual receipts for dividends, bonuses, other monies payable or properties distributable and payment on account of dividends on or in respect of such shares.

### Article 145

Notice of declaration of any dividend, whether interim or otherwise, may be given by advertisement.

### Article 146

Unless otherwise directed, any dividend may be paid by cheque, dividend warrant or Post Office Order, sent through the post to the registered address appearing in the Register or the Depository Register, as the case may be, of the Member or person entitled, or where two or more persons are registered in the Register or entered in the Depository Register, as the case may be, as joint holders or are entitled to the dividend as a result of the death or bankruptcy of the holder, to that one whose name shall stand first on the Register or the Depository Register, as the case may be, in respect thereof and every cheque, dividend warrant or Post Office Order so sent shall be made payable to the order of the person to

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whom it is sent or to any person and address as such Member(s) or persons(s) may direct in writing. The Company shall not be responsible for the loss of any cheque, dividend warrant or Post Office Order, which shall be sent by post duly addressed to and at the sole risk of the Member or person for whom it is intended. Payment of the cheque, dividend warrant or Post Office Order by the bank upon which they are respectively drawn shall be a full and valid discharge to the Company. Notwithstanding the provisions of these Articles, payment by the Company to the Depository of any dividend payable to a Depositor shall also be a full and valid discharge of the Company from liability to the Depositor in respect of that payment to the extent of the payment made to the Depository.

### Article 147

The Depository will hold all dividend unclaimed for six years after having been declared and paid before release to the Directors, and the Directors may invest or otherwise make use of the unclaimed dividends for the benefit of the Company until claimed.

**(4) *The following provisions of the Articles of Association of the Company relate to the appointment, retirement and removal of Directors.***

**(a) Appointment, Retirement and Removal of Directors**

### Article 98

Until otherwise determined by a Special Resolution at a General Meeting, the number of Directors shall not be less than two or more than twenty. All the Directors of the Company shall be natural persons.

### Article 100

A Director shall not be required to hold any share in the Company.

### Article 101(1)

Any Director may at any time and from time to time appoint any other person approved by a majority of the Directors for the time being to be his alternate. An alternate Director shall be entitled (subject to his giving to the Company an address within the Republic of Singapore at which notices may be served on him) to receive notice of meetings of the Directors and to attend and vote as a Director at any such meeting at which the Director appointing him is not present, and generally at such meeting to exercise all the powers, rights, duties and authorities of the Director appointing him. Every person acting as an alternate Director shall be an officer of the Company and shall alone be responsible to the Company for his own acts and defaults and he shall not be deemed to be the agent of or for the Director appointing him. All the appointments and removals of alternate Directors made by any Director in pursuance of this Article, shall be in writing under the hand of the Director making the same and shall be sent to or left at the Office. A Director may not act as an alternate for another Director. A person may not act as an alternate Director for more than one Director of the Company.

### Article 101(2)

An alternate Director may be removed by his appointor and the appointor (subject to the approval of the Directors) may appoint another in his place. An alternate Director may be removed from office by a resolution of the Directors, but he shall be entitled to vote on such resolution and he shall, ipso facto, cease to be an alternate Director if his appointor ceases for any reason to be a Director. The appointment of an alternate Director shall also determine on the happening of any event which, if he were a Director, would cause him to vacate such office.

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### Article 104(1)

The office of a Director shall be vacant if the Director:-

- (a) ceases to be a Director by virtue of the Statutes; or
- (b) becomes bankrupt or makes any arrangement or composition with his creditors generally; or
- (c) is or becomes prohibited from being a Director by reason of any order made under the Statutes; or
- (d) becomes of unsound mind or a person whose person or estate is liable to be dealt with in any way under any law relating to mental disorder; or
- (e) resigns his office by notice in writing to the Company; or
- (f) for more than six months is absent without permission of the Directors from meetings of the Directors held during that period and his alternate Director (if any) shall not during such period have attended in his stead; or
- (g) is directly or indirectly interested in any contract or proposed contract with the Company and fails to declare the nature of his interest in the manner required by the Statutes; or
- (h) if he is removed from office pursuant to the Statutes.

### Article 104(2)

The appointment of any Director to the office of Chairman or Deputy Chairman or Managing or Joint Managing or Deputy or Assistant Director shall automatically terminate if he ceases to be a Director but without prejudice to any claim for any damage or breach of any contract of service between him and the Company.

### Article 104(3)

The appointment of any Director to any other executive office shall automatically terminate if he ceases from any cause to be a Director only if the contract or resolution under which he holds office expressly so provides, in which case such termination shall be without prejudice to any claim for damages or breach of any contract of service between him and the Company.

### Article 107

At the Annual General Meeting in every year one-third of the Directors for the time being (other than the Managing Director or a person holding an equivalent position), or, if their number is not three or a multiple of three, then the number nearest to but not less than one-third, shall retire from office Provided Always that all Directors (except the Managing Director or a person holding an equivalent position) shall retire from office at least once every three years.

### Article 108

The Directors to retire in every year shall be those who have been longest in office since their last election, but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

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### Article 109

Subject to the Statutes, a retiring Director shall be eligible for re-election at the meeting at which he retires.

### (b) **Nomination of Directors**

#### Article 110

A person who is not a retiring Director shall be eligible for election to office of Director at any General Meeting if some Member intending to propose him has, at least eleven clear days before the meeting, left at the Office of the Company a notice in writing duly signed by the nominee, giving his consent to the nomination and signifying his candidature for the office, or the intention of such Member to propose him, Provided That in the case of a person recommended by the Directors for election, nine clear days' notice only shall be necessary, and notice of each and every candidature for election to the Board of Directors shall be served on the registered holders of shares at least seven days prior to the meeting at which the election is to take place.

#### Article 111

The Company by Special Resolution in General Meeting may, from time to time, increase or reduce the number of Directors, and may alter their qualification, if any.

#### Article 112

The Directors may from time to time appoint one or more of their body to the office of Managing Director or a person holding an equivalent position for such period (not exceeding five years) and on such terms as they think fit, and subject to the terms of any agreement entered into in any particular case, may revoke such appointment. A Managing Director or a person holding an equivalent position shall be subject to the control of the Directors. A Director so appointed shall not, while holding that office be subject to retirement but his appointment shall be automatically determined if he ceases from any cause to be a Director.

#### Article 117

The Directors shall have power at any time and from time to time to appoint any other qualified person as a Director either to fill a casual vacancy or as an addition to the Board. But any Director so appointed shall hold office only until the next Annual General Meeting of the Company, and shall be eligible for re-election.

#### Article 118

The Company may from time to time by Ordinary Resolution remove any Director before the expiration of his period of office, and may by an Ordinary Resolution appoint another person in his stead. The person so appointed shall continue to hold office until the next Annual General Meeting.

#### Article 125

The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the minimum number fixed by or pursuant to these Articles, the continuing Directors may, except in an emergency, act for the purpose of increasing the number of Directors to such minimum number, or of summoning a General Meeting of the Company, notwithstanding that there shall not be a quorum, but for no other purpose.

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**(5) *Limitations on Rights to Hold or Vote Ordinary Shares***

There are no limitations imposed by Singapore law or by the Articles of Association on the rights of non-resident Shareholders to hold or vote on the ordinary shares.

**(6) *Delaying, deferring or preventing change in control of the Company***

There is no provision in the Articles of Association which could have an effect of delaying, deferring or preventing a change in control of the Company and which could operate only with respect to a merger, acquisition or corporate restructuring involving the Company.

### **BANK BORROWINGS AND WORKING CAPITAL**

17. Save as disclosed in the section entitled “Capitalisation and Indebtedness” in this Prospectus and in the “Compilation Report of the Reporting Auditors on Proforma Group Financial Information”, our Group had no other borrowings or indebtedness in the nature of borrowings including bank overdrafts and liabilities under acceptances (other than normal trading bills) or acceptance credits, mortgages, charges, hire purchase commitments, guarantees or other contingent liabilities as at the Latest Practicable Date.
18. In the opinion of our Directors, no minimum amount must be raised by the issue of the New Shares in order to provide the sums required in respect of each of the following:-
- (a) the purchase price of any property purchased or to be purchased which is to be defrayed in whole or in part out of the proceeds of the issue of the New Shares;
  - (b) estimated expenses (including underwriting commission and brokerage) for the Invitation payable by our Company;
  - (c) the repayment of any money borrowed by our Company in respect of any of the foregoing matters; and
  - (d) working capital.

Although no minimum amount must be raised by our Company from the Invitation in order to provide for the items set out above, the estimated amount to be provided for the item set out in sub-paragraph (b) is approximately S\$1.40 million. Such amount is proposed to be provided out of the proceeds of the Invitation or, in the event the Invitation is cancelled, out of our existing banking facilities and/or funds generated from operations. No amounts are to be provided for the items set out in paragraphs (a), (c) and (d) above out of other sources of funding.

19. Our Directors are of the opinion that, after taking into account our present banking facilities, our Group has adequate working capital for our requirements.

### **MATERIAL CONTRACTS**

20. The following contracts, not being contracts entered into in the ordinary course of business of our Company and our subsidiaries have been entered into by our Company and our subsidiaries within the two years preceding the date of lodgment of this Prospectus and are or may be material:-
- (a) Agreement between Servo Dynamics Pte Ltd and Eisele-Antriebstechnik GmbH dated 18 April 2005 in which both parties agreed to form a joint venture company in the PRC for the production of motion control components in the PRC.
  - (b) Agreement between Servo Dynamics Pte Ltd and Qingxiang Industrial Co., Ltd dated 15 May 2005 in which Servo Dynamics agreed to invest the sum of TWD2,713,200 for a 19% equity stake in Qingxiang Industrial Co., Ltd.

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- (c) Agreement between Motion Control Group Pte Ltd and Goh Yiu Jin dated 6 July 2005 in which Motion Control Group Pte Ltd agreed to invest the sum of S\$300,000 for 67% equity stake in JM Vistec System Pte Ltd.
- (d) Sale and Purchase Agreement between Thai Asset Management Corporation and Servo Dynamics (Thailand) Co., Ltd dated 10 August 2005 in which Servo Dynamics (Thailand) Co., Ltd agreed to acquire a plot of land known as 4 Rai and 15 Square Wah (6,460 Square Metre), title deed number 37395 Bangkaew (Samrang Nok District) Bangplee (Prakanang, Samutprakarn Province) in consideration of the sum of THB12,920,000 (approximately S\$517,000).
- (e) Restructuring Agreement dated 27 September 2005 between Leaptron Engineering Pte Ltd, Motion Control Group Pte Ltd, Portwell Singapore Pte Ltd, Precision Motion Control Pte Ltd, Servo Dynamics Pte Ltd and the Persons Whose Names Are Set Out In Schedules 1 – 5 of the Agreement and the Company referred to in the section on “Restructuring Exercise” of this Prospectus.
- (f) Depository Agreement dated 15 November 2005 between our Company and CDP pursuant to which CDP agreed to act as central depository for our Company’s securities for trades in the securities of the Company through the SGX-ST.
- (g) Management and Underwriting Agreement dated 15 November 2005 referred to in paragraph 30 below.
- (h) Placement Agreement dated 15 November 2005 referred to in paragraph 30 below.
- (i) Receiving Bank Agreement dated 17 October 2005 between our Company and Bank of East Asia, Limited pursuant to which Bank of East Asia, Limited was appointed as the receiving bank in relation to the Invitation.

### LITIGATION

21. Except as disclosed below, to the best of our knowledge and belief, having made all reasonable enquiries, there are no legal or arbitration proceedings, including those which are pending or known to be contemplated, which may have or have had, in the last 12 months before the date of lodgment of this Prospectus with the Authority, a material effect on our financial position or profitability:-

#### SD Malaysia

On 29 April 2005, SD Malaysia commenced action in the Kuala Lumpur Magistrates Court against Kok Se Wun trading as UAT Electronics for a sum of RM14,805 representing monies due to SD Malaysia for goods sold and delivered to Kok Se Wun trading as UAT Electronics. On 13 August 2004, Kok Se Wun filed a defence and counterclaim against SD Malaysia claiming the sum that SD Malaysia failed to deliver goods conforming to description and for consequential loss of profit amounting to the total sum of RM14,568 SD Malaysia has filed a Reply and Defence to Counterclaim alleging that:-

- (a) Kok Se Wun had not at any time before the commencement of the action by the SD Malaysia raised the issue that the goods delivered by SD Malaysia were not in accordance with the description of goods ordered and SD Malaysia had never received any notice to that effect from Kok Se Wun; and
- (b) The issue was only raised by Kok Se Wun after SD Malaysia commenced its action to claim for the outstanding sums for the goods sold and delivered.

The case is ongoing and is currently pending hearing before the Court.



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Our Directors do not foresee any potential material loss from the action. In the event that SD Malaysia loses the action, our Directors are of the view that the sum involved in the litigation dispute is only RM14,568 (approximately S\$6,600) and the sum will not have any material impact on our Group's overall financial position.

### MANAGEMENT, UNDERWRITING AND PLACEMENT ARRANGEMENTS

22. (a) Pursuant to the Management and Underwriting Agreement, our Company appointed the Manager to manage the Invitation and the Underwriters to underwrite the Offer Shares. The Manager will receive a management fee from our Company for its services rendered in connection with the Invitation.
- (b) Pursuant to the Management and Underwriting Agreement, the Underwriter has agreed to underwrite the Offer Shares for a commission of 2.25% of the Invitation Price for each Offer Share, payable by our Company.
- (c) Pursuant to the Placement Agreement, the Placement Agent has agreed to subscribe or procure subscriptions for the Placement Shares for a placement commission of 2.50% of the Invitation Price for each Placement Share, payable by our Company.
- (d) Brokerage will be paid by our Company to members of the Exchange, merchant banks and members of the Association of Banks in Singapore in respect of accepted applications made on Application Forms bearing their respective stamps, or to Participating Banks in respect of successful applications made through Electronic Applications at the ATMs of the relevant Participating Banks, at the rate of 0.25% of the Offer Price for each Offer Share.
- (e) Subscribers or purchasers of Placement Shares may be required to pay a brokerage of up to 1.00% of the Invitation Price to the Placement Agent.
- (f) Save as aforesaid and under the section entitled "Plan of Distribution" in this Prospectus, no commission, discount or brokerage, has been paid or other special terms granted within the two years preceding the date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in or debentures of our Company.
- (g) The Management and Underwriting Agreement may be terminated or rescinded by the Manager and/or the Underwriter, at any time before the close of the Application List on the occurrence of certain events including: -
- (i) there shall come to the knowledge of the Manager or the Underwriter any breach of the warranties or undertakings in Clause 6 of the Management and Underwriting Agreement is untrue or incorrect; or
  - (ii) any event occurring after the date of the Management and Underwriting Agreement and prior to 12.00 noon on the close of the Application List, which if it occurred before the date of this Agreement, would have rendered any of the warranties in the Management and Underwriting Agreement untrue or incorrect in any material respect, comes to the knowledge of the Manager or the Underwriter; or
  - (iii) if there shall have been, since the date of this Agreement:
    - (aa) any adverse change, or any development involving a prospective adverse change, in the condition (financial or otherwise) of the Company and/or its subsidiaries; or



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- (bb) any introduction or prospective introduction of or any change or prospective change in any legislation, regulation, order, policy, rule, guideline or directive in Singapore or elsewhere (whether or not having the force of law) and including, without limitation, any directive or request issued by the Authority, the Securities Industry Council of Singapore or the SGX-ST in the interpretation or application thereof by any governmental authorities, court or, other competent authority; or
- (cc) any change, or any development involving a prospective change, in local, national or international financial (including stock market, foreign exchange market, inter-bank market or interest rates or money market), political, industrial, economic, legal or monetary conditions, taxation or exchange controls (including without limitation, the imposition of any moratorium, suspension or material restriction on trading in securities generally on the SGX-ST due to exceptional financial circumstances or otherwise); or
- (dd) any imminent threat or occurrence of any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict (whether or not involving financial markets), or
- (ee) any other occurrence of any nature whatsoever, which event or events shall in the opinion of the Manager (i) result or be likely to result in a material adverse fluctuation or adverse conditions in the stock market in Singapore or overseas, or (ii) be likely to prejudice the success or the subscription or offer of the Invitation Shares (whether in the primary market or in respect of dealings in the secondary market), or (iii) make it impracticable, inadvisable, inexpedient or uncommercial to proceed with any of the transactions contemplated in the Management and Underwriting Agreement, or (iv) be likely to have an adverse effect on the business, trading position, operations or prospects of the Company and/or its subsidiaries, or (v) be such that no reasonable underwriter would have entered into this Agreement, or (vi) result or be likely to result in the issue of a stop order by the Authority pursuant to the Securities and Futures Act, or (vii) makes it uncommercial or otherwise contrary to or outside the usual commercial practices of underwriters in Singapore for the Underwriter to observe or perform or be obliged to observe or perform the terms of the Management and Underwriting Agreement; or
- (ff) without limiting the generality of the foregoing, if it comes to the notice of the Manager (i) any statement contained in the Prospectus or the application forms relating thereto which in the sole and absolute opinion of the Manager has become untrue, incorrect or misleading in any respect or (ii) circumstances or matters have arisen or have been discovered, which would, if the Prospectus was to be issued at that time, constitute in the sole and absolute opinion of the Manager, a material omission of such information, and the Company fails to lodge a supplementary or replacement prospectus or document within a reasonable time after being notified of such material misrepresentation or omission or fails to promptly take such steps as the Manager may reasonably require to inform investors of the lodgment of such supplementary prospectus or document. In such an event, the Manager reserves the right, at its absolute discretion to cancel the Invitation and any application monies received will be refunded (without interest or any share of revenue or other benefit arising therefrom) to the applicants for the Invitation Shares by ordinary post or telegraphic transfer at the applicant's own risk within 14 days of the termination of the Invitation.

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The Manager or the Underwriter may by notice in writing to the Company and the Vendors terminate this Agreement if:

- (i) at any time up to the Trading Date, a stop order shall have been issued by the Authority in accordance with Section 242 of the Securities and Futures Act,
  - (ii) at anytime after registration of the Prospectus with the Authority but before the Closing Date, the Company and the Vendors fail and/or neglect to lodge a supplementary or replacement prospectus (as the case may be) if it becomes aware of (a) a false or misleading statement or matter in the Prospectus; (b) an omission from the Prospectus of any information that should have been included in it under Section 243 of the Securities and Futures Act; or (c) a new circumstance that has arisen since the Prospectus was lodged with the Authority and would have been required by Section 243 of the Securities and Futures Act to be included in the Prospectus if it had arisen before the Prospectus was lodged, that is materially adverse from the point of view of an investor; and the Shares (including the New Shares and the Vendor Shares) have not been admitted to the Official List of the SGX-ST on or before 24 November 2005 (or such other date as the Company and the Manager may agree).
- (h) In the event that the Management and Underwriting Agreement is terminated, we reserve the right, at our absolute discretion, to cancel the Invitation.
23. The Placement Agreement is conditional upon the Management and Underwriting Agreement not having been terminated or rescinded pursuant to the provisions of the Management and Underwriting Agreement.
24. Save as disclosed above, we do not have any material relationship with the Manager.

### MISCELLANEOUS

25. The nature of the business of our Company has been stated earlier in this Prospectus. The corporations which by virtue of Section 6 of the Companies Act are deemed to be related to our Company are set out below:-

北京钧义志成科技发展有限公司  
(Beijing Junyizhicheng Technology Developing Co., Ltd.)

北京北成新控伺服技术有限公司  
(Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd.)

重庆钧智自动化仪器控制有限公司  
(Chongqing Junzhi Automatic Instrument Control Co., Ltd.)

JM Vistec System Pte Ltd

Leaptron Engineering Pte Ltd

Motion Control Group Pte Ltd

Portwell Singapore Pte Ltd

Precision Motion Control Pte Ltd

Servo Dynamics (H.K.) Limited

Servo Dynamics Pte Ltd

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Servo Dynamics (Thailand) Co., Ltd

Servo Engineering Sdn Bhd

苏州钧信自动控制有限公司  
(Servo Suzhou Co., Ltd.)

上海帝生通国际贸易有限公司  
(Shanghai Delta Automation International Trade Co., Ltd.)

深圳市钧诚科技有限公司  
(Shenzhen Servo Dynamics Co., Ltd.)

26. The time of opening of the Application List is set out in the section entitled “Indicative Timetable for Listing” in this Prospectus.
27. The amount payable on application is S\$0.29 for each Invitation Share.
28. There has been no previous issue of Shares by our Company or offer for sale of our Shares to the public within the two years preceding the date of this Prospectus.
29. The expenses in connection with the Invitation and the application for listing, including underwriting commission, placement commission, brokerage, management fees, auditors’ fee, solicitors’ fee, and all other incidental expenses in relation to the Invitation can be broken down as follows:-

	S\$’000
Listing Fee	25
Professional Fees and charges	1,100
Underwriting and placement commission and brokerage	288
Miscellaneous expenses	80
	<hr/>
Total estimated expenses	1,493
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The listing fee, professional fees and miscellaneous expenses will be borne by our Company. The underwriting and placement commission and brokerage will be borne by our Company and the Vendors in the proportion in which the number of Invitation Shares offered by each of them pursuant to the Invitation bears to the total number of Invitation Shares. The total Invitation expenses borne by our Company is approximately S\$1.40 million.

30. There have been no public takeover offers by third parties in respect of our Shares or by us in respect of other companies’ shares which have occurred during the last and current financial year.
31. No amount of cash or securities or benefit has been paid or given to any promoter within the two years preceding the Date of this Prospectus or is proposed or intended to be paid or given to any promoter at any time.
32. Save as disclosed in paragraph 22 of this section, no commission, discount or brokerage has been paid or other special terms granted within the two years preceding the Date of this Prospectus or is payable to any Director, promoter, expert, proposed Director or any other person for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares in, or debentures of, our Company or any of our subsidiaries.
33. No expert is interested, directly or indirectly, in the promotion of, or in any property or assets which have, within the two years preceding the Date of this Prospectus, been acquired or disposed of by or leased to our Company or any of our subsidiaries or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries.

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34. Application monies received by our Company in respect of successful applications (including successful applications which are subsequently rejected) will be placed in a separate non-interest bearing account with Bank of East Asia, Limited (the “Receiving Bank”). In the ordinary course of business, the Receiving Bank will deploy these monies in the interbank money market. All profits derived from the deployment of such monies will accrue to the Receiving Bank. Any refund of all or part of the application monies to unsuccessful or partially successful applicants will be made without any interest or any share of revenue or any other benefit arising therefrom.
35. Save as disclosed in this Prospectus, our Directors are not aware of any relevant material information including trading factors or risks which are unlikely to be known or anticipated by the general public and which could materially affect the profits of our Company and our subsidiaries.
36. Save as disclosed in this Prospectus, the financial condition and operations of our Group are not likely to be affected by any of the following:-
- (a) known trends or demands, commitments, events or uncertainties that will result in or are reasonably likely to result in our Group’s liquidity increasing or decreasing in any material way;
  - (b) material commitments for capital expenditure;
  - (c) unusual or infrequent events or transactions or any significant economic changes that materially affected the amount of reported income from operations; and
  - (d) known trends or uncertainties that have had or that we reasonably expect will have a material favourable or unfavourable impact on revenues or operating income.
37. Details, including the name, address and professional qualifications (including membership in a professional body) of the auditors of our Company since incorporation is as follows:-

Period	Name, membership and address	Professional body	Partner-in-charge/ Professional qualification
Since incorporation to current	Deloitte & Touche Certified Public Accountants 6 Shenton Way #32-00 DBS Building Tower Two Singapore 068809	Institute of Certified Public Accountants Singapore	Dr Ernest Kan Yaw Kiong, FCPA Singapore, BA, M. Phil., Ph. D, FCA, FCCA., FCPA

We currently have no intention of changing our auditors after the listing of our Company on the SGX-ST.

38. No property has been purchased or acquired or proposed to be purchased or acquired by our Company or our subsidiaries which is to be paid for wholly or partly out of the proceeds of the Invitation or the purchase or acquisition of which has not been completed at the date of the issue of this Prospectus other than property in respect of which the contract for the purchase or acquisition whereof was entered into in our ordinary course of business or in the ordinary course of business of our subsidiaries, such contract not being made in contemplation of the Invitation nor the Invitation in consequence of the contract.
39. Save as disclosed in the “Compilation Report of the Reporting Auditors on Proforma Group Financial Information” in Appendix D of this Prospectus, the Directors are not aware of any event which has occurred since 1 January 2005 which may have a material effect on the financial information provided in the Proforma Consolidated Financial Statements.

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### CONSENTS

40. We have obtained the following consents for the issue of this Prospectus:-

- (a) The Reporting Auditors have given and have not withdrawn their written consent to the issue of this Prospectus with the inclusion herein of the Compilation Report of the Reporting Auditors on Proforma Group Financial Information (Annexed as Appendix D of this Prospectus), in the form and context in which it is included and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus;
- (b) The Manager have given and have not withdrawn their written consent to the issue of this Prospectus, in the form and context in which it is included and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus; and
- (c) The Placement Agent and Underwriter have given and have not withdrawn their written consent to the issue of this Prospectus, in the form and context in which it is included and references to their name in the form and context in which it appears in this Prospectus and to act in such capacity in relation to this Prospectus.

### RESPONSIBILITY STATEMENT BY OUR DIRECTORS AND THE VENDORS

41. This Prospectus has been seen and approved by our Directors and the Vendors and they individually and collectively accept full responsibility for the accuracy of the information given herein and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, the facts stated and the opinions expressed herein are fair and accurate in all material respects as of the date hereof and there are no material facts the omission of which would make any statements in this Prospectus misleading and that this Prospectus constitutes full and true disclosure of all material facts about the Invitation and our Group.

### STATEMENT BY THE MANAGER

42. The Manager acknowledges that, having made due and careful enquiry and to the best of its knowledge and belief, based on information furnished to it by our Group, this Prospectus constitutes full and true disclosure of all the material facts about the Invitation and our Group, and it is not aware of any other facts which would make any statements herein misleading.

### DOCUMENTS AVAILABLE FOR INSPECTION

43. The following documents or copies thereof may be inspected at our registered office at 10 Kaki Bukit Road 1 #01-30 KB Industrial Building Singapore 416175 during normal business hours for a period of six months from the date of registration by the MAS of this Prospectus:-
- (a) the Memorandum and Articles of Association of our Company;
  - (b) the material contracts referred to in paragraph 20 of this section;
  - (c) the letter of consent referred to in paragraph 40 of this section;
  - (d) Compilation Report of the Reporting Auditors on Proforma Group Financial Information;
  - (e) the service agreements referred to in the section entitled "Service Agreements" in this Prospectus.

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## APPENDIX A

### TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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You are invited to apply and subscribe for the Invitation Shares at the Invitation Price for each Invitation Share subject to the following terms and conditions:-

1. **YOUR APPLICATION MUST BE MADE IN LOTS OF 1,000 INVITATION SHARES AND HIGHER INTEGRAL MULTIPLES THEREOF. YOUR APPLICATION FOR ANY OTHER NUMBER OF INVITATION SHARES WILL BE REJECTED.**
2. Your application for Offer Shares may be made by way of printed Offer Shares Application Forms or by way of Electronic Applications through ATMs of the Participating Banks ("ATM Electronic Applications") or through the Internet Banking ("IB") websites of the relevant Participating Banks ("IB Applications").

Your application for the Internet Placement Shares ("Internet Placement Application") may only be made by way of an application through the IPO Website at "[www.ePublicOffer.com](http://www.ePublicOffer.com)" if you have a valid membership account with IPO Website Operator. IB Applications and Internet Placement Shares Applications (collectively, the "Internet Electronic Applications"), together with ATM Electronics Applications, shall be referred to a "Electronic Applications".

Your application for Placement Shares (other than the Internet Placement Shares) and Reserved Shares may only be made by way of printed Placement Shares Application Forms and Reserved Shares Application Forms respectively.

**YOU MAY NOT USE CPF FUNDS TO APPLY FOR THE INVITATION SHARES.**

3. **You (being other than an approved nominee company) are allowed to submit ONLY ONE APPLICATION in your own name for either Offer Shares OR Placement Shares by any ONE of the following ways:-**
  - (a) **for Offer Shares:-**
    - (i) **Offer Shares Application Form;**
    - (ii) **ATM Application; OR**
    - (iii) **IB Application.**
  - (b) **for Placement Shares:-**
    - (i) **Placement Shares Application Form;**
    - (ii) **Reserved Shares Application Form; OR**
    - (iii) **Internet Placement Application.**

**If more than one application is submitted for either the Offer Shares or the Placement Shares, such separate applications shall be deemed to be multiple applications and shall be rejected. If you have made an application for Placement Shares, you should not make any application for Offer Shares and vice versa. Such separate applications shall be deemed to be multiple applications and shall be rejected.**

**A Qualifying Internet Applicant whose application for Internet Placement Shares is rejected because of multiple applications will be levied an administrative fee amounting to 20% of the Qualifying Internet Applicant's application subscription monies (subject to Singapore goods and services tax).**



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**JOINT OR MULTIPLE APPLICATIONS SHALL BE REJECTED.** If you submit or procure submissions of multiple share applications for Offer Shares, Placement Shares or both Offer Shares and Placement Shares, you may be deemed to have committed an offence under the Penal Code, Chapter 224 of Singapore and the Securities and Futures Act, and your applications may be referred to the relevant authorities for investigation. Multiple applications or those appearing to be or suspected of being multiple applications will be liable to be rejected at our discretion.

4. Our Company and the Vendors will not accept applications from any person under the age of 21 years, undischarged bankrupts, sole-proprietorships, partnerships, non-corporate bodies, joint Securities Account holders of CDP and applicants whose addresses (furnished in their printed Application Forms or, in the case of Electronic Applications, contained in the records of the relevant Participating Banks or the IPO Website Operator, as the case may be) bear post office box numbers. No person acting or purporting to act on behalf of a deceased person is allowed to apply under the Securities Account with CDP in the deceased name at the time of application.

In addition, applicants who wish to subscribe for the Internet Placement Shares through the IPO Website (a) must not be corporations, sole proprietorships, partnerships or any other business entities; (b) must be over the age of 21 years; (c) must not be undischarged bankrupts; (d) must apply for the Internet Placement Shares in Singapore; (e) must have a mailing address in Singapore; and (f) must be customers who maintain valid membership accounts with the IPO Website Operator.

5. Our Company and the Vendors will not recognise the existence of a trust. Any application by a trustee or trustees must be made in his/their own name(s) and without qualification or, where the application is made by way of an Application Form, in the name(s) of an approved nominee company or approved nominee companies after complying with paragraph 6 below.
6. **OUR COMPANY AND THE VENDORS WILL NOT ACCEPT APPLICATIONS FROM NOMINEES EXCEPT THOSE MADE BY APPROVED NOMINEE COMPANIES ONLY.** Approved nominee companies are defined as banks, merchant banks, finance companies, insurance companies, licensed securities dealers in Singapore and nominee companies controlled by them. Applications made by persons acting as nominees other than approved nominee companies shall be rejected.
7. **IF YOU ARE NOT AN APPROVED NOMINEE COMPANY, YOU MUST MAINTAIN A SECURITIES ACCOUNT WITH CDP IN YOUR OWN NAME AT THE TIME OF YOUR APPLICATION.** If you do not have an existing Securities Account with CDP in your own name at the time of your application, your application will be rejected (if you apply by way of an Application Form), or you will not be able to complete your Electronic Application (if you apply by way of an Electronic Application). If you have an existing Securities Account but fail to provide your Securities Account number or provide an incorrect Securities Account number in Section B of the Application Form or in your Electronic Application, as the case may be, your application is liable to be rejected. Subject to paragraph 8 below, your application may be rejected if your particulars, such as name, NRIC/passport number, nationality and permanent residence status provided in your Application Form or in the records of the relevant Participating Bank or the IPO Website Operator at the time of your Electronic Application, as the case may be, differ from those particulars in your Securities Account as maintained with CDP. If you possess more than one individual direct Securities Account with CDP, your application will be rejected.
8. **If your address as stated in the Application Form or, in the case of an Electronic Application, contained in the records of the relevant Participating Bank or the IPO Website Operator, as the case may be, is different from the address registered with CDP, you must inform CDP of your updated address promptly, failing which the notification letter on successful allotment and/or allocation will be sent to your address last registered with CDP.**



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**APPENDIX A**  
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9. **Our Company and the Vendors reserve the right to reject any application which does not conform strictly to the instructions set out in the Application Form and in this Prospectus or with the terms and conditions of this Prospectus, which is illegible, incomplete, incorrectly completed or which is accompanied by an improperly drawn up or improper form of remittance. Our Company and the Vendors further reserves the right to treat as valid any applications not completed or submitted or effected in all respects in accordance with the instructions set out in the Application Forms or the instructions for Electronic Applications or the terms and conditions of this Prospectus, and also to present for payment or other processes all remittances at any time after receipt and to have full access to all information relating to, or deriving from, such remittances or the processing thereof.**

Our Company and the Vendors reserve the right to reject or to accept, in whole or in part, or to scale down or to ballot any application, without assigning any reason therefor, and we will not entertain any enquiry and/or correspondence on our decision. This right applies to applications made by way of Application Forms and by way of Electronic Applications. In deciding the basis of allotment, we will give due consideration to the desirability of allotting the Invitation Shares to a reasonable number of applicants with a view to establishing an adequate market for the Shares.

11. Share certificates will be registered in the name of CDP or its nominee and will be forwarded only to CDP. It is expected that CDP will send to you, at your own risk, within 15 Market Days after the close of the Application List, a statement of account stating that your Securities Account has been credited with the number of Invitation Shares allotted and/or allocated to you. This will be the only acknowledgement of application monies received and is not an acknowledgement by our Company or the Vendors. You irrevocably authorise CDP to complete and sign on your behalf as transferee or renounee any instrument of transfer and/or other documents required for the issue or transfer of the Invitation Shares allotted and/or allocated to you. This authorisation applies to applications made by way of printed Application Forms and by way of Electronic Applications.
12. In the event of an under-subscription for the Offer Shares as at the close of the Application List, we will make available that number of Offer Shares not subscribed for to satisfy excess applications for Placement Shares to the extent that there is an over-subscription for Placement Shares as at the close of the Application List.

In the event of an under-subscription for the Placement Shares as at the close of the Application List, we will make available that number of Placement Shares not subscribed for to satisfy excess applications for Offer Shares to the extent that there is an over-subscription for Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Reserved Shares as at the close of the Application List, we will make available that number of Reserved Shares not subscribed for to satisfy excess applications for Placement Shares by way of Placement Shares Application Forms to the extent that there is an over-subscription for such Placement Shares as at the close of the Application List or to satisfy excess applications for the Offer Shares, to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

In the event of an under-subscription for the Internet Placement Shares as at the close of the Application List, we will make available that number of Internet Placement Shares not subscribed for to satisfy excess applications for Placement Shares by way of Placement Shares Application Forms to the extent that there is an over-subscription for such Placement Shares as at the close of the Application List or to satisfy excess applications for the Offer Shares, to the extent that there is an over-subscription for the Offer Shares as at the close of the Application List.

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In the event of an over-subscription for Offer Shares as at the close of the Application List and Placement Shares are fully subscribed or over-subscribed as at the close of the Application List, the successful applications for Offer Shares will be determined by ballot or otherwise as determined by our Directors and approved by the SGX-ST.

In all of the above instances, the basis of allotment of the Invitation Shares as may be decided upon by our Company and the Vendors in ensuring a reasonable spread of shareholders of our Company, shall be made public, as soon as is practicable, via an announcement through the SGX-ST and through a paid advertisement in a local English language or Chinese language newspaper.

13. You consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, CDP Investment Account number (if applicable) and share application amount from his account with the relevant Participating Bank to the Share Registrars, SCCS, SGX-ST, CDP, CPF, Issues and the Manager. You irrevocably authorise CDP to disclose the outcome of your application, including the the number of Invitation Shares allotted and/or allocated to you pursuant to your application, to our Company, the Vendors, the Manager, the Placement Agent and Underwriter and any other parties so authorised by the foregoing persons.
14. Any reference to the “you” in this section shall include an individual, a corporation, an approved nominee and trustee applying for the Offer Shares by way of an Offer Share Application Form; an individual applying for the Offer Shares by way of an ATM Application or IB Application; an individual, a corporation, an approved nominee and trustee applying for the Placement Shares by way of a Placement Shares Application Form through the Placement Agent and an individual applying for the Internet Placement Shares by way of an Internet Placement Application through the IPO Website.
15. By completing and delivering an Application Form or by making and completing an Electronic Application by pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM (in the case of an ATM Application) or by clicking “Submit” or “Continue” or “Yes” or “Confirm” on the IB Website screen or the IPO Website screen (in the case of an IB Application or Internet Placement Application) in accordance with the provisions of this Prospectus, you:-
  - (a) irrevocably offer to subscribe for the number of Invitation Shares specified in your application (or such smaller number for which the application is accepted) at the Invitation Price and agree that you will accept such Invitation Shares as may be allotted and/or allocated to you, in each case on the terms of this Prospectus and on the terms of the conditions set out in, this Prospectus and the Memorandum and Articles of Association of our Company;
  - (b) agree that in the event of any inconsistency between the terms and conditions for application set out in this Prospectus and those set out in the IPO Website, or the IB Websites or ATMs, the terms and conditions set out in this Prospectus shall prevail;
  - (c) agree that the aggregate Invitation Price for the Invitation Shares applied for is due and payable to our Company and the Vendors forthwith;
  - (d) warrant the truth and accuracy of the information contained, and representations and declarations made, in your application, and acknowledge and agree that such information, representations and declarations will be relied on by our Company and the Vendors in determining whether to accept your application and/or whether to allot and/or allocate any Invitation Shares to you; and

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- (e) agree and warrant that if the laws of any jurisdictions outside Singapore are applicable to your application, you have complied with all such laws and none of our Company, the Vendors, the Manager, the Placement Agent and Underwriter will infringe any such laws as a result of the acceptance of your application.
16. Our acceptance of applications will be conditional upon, *inter alia*, our Company and the Vendors being satisfied that:-
- (a) permission has been granted by the SGX-ST to deal in and for quotation for all our existing Shares and the Invitation Shares on a “when issued” basis on the SGX-ST;
  - (b) the Management and Underwriting Agreement and the Placement Agreement referred to at Paragraph 22 of the section entitled “General Statutory Information” in this Prospectus have become unconditional and have not been terminated or cancelled prior to such date as our Company may determine; and
  - (c) the Authority has not served a stop order which directs that no further shares to which this Prospectus relates be allotted.
17. Our Company and the Vendors will not hold any applications in reserve.
18. Our Company and the Vendors will not allot Shares on the basis of this Prospectus later than six months after the date of this Prospectus.
19. Additional terms and conditions for applications by way of Printed Application Forms are set out in Appendix A of this Prospectus.
20. Additional terms and conditions for applications by way of Electronic Applications are set out in Appendix A of this Prospectus.

#### ADDITIONAL TERMS AND CONDITIONS FOR APPLICATIONS USING PRINTED APPLICATION FORMS

You shall make an application by way of Application Forms made on and subject to the terms and conditions of this Prospectus including but not limited to the terms and conditions appearing below as well as those set out under the section on “TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” in Appendix A of this Prospectus, as well as the Memorandum and Articles of Association of our Company.

1. Your application must be made using the **WHITE** Application Forms for Offer Shares or the **BLUE** Application Forms for Placement Shares or the **PINK** Application Forms for Reserved Shares. We draw your attention to the detailed instructions contained in the respective Application Forms and this Prospectus for the completion of the Application Forms which must be carefully followed. **Our Company and the Vendors reserve the right to reject applications which do not conform strictly to the instructions set out in the Application Forms and this Prospectus or to the terms and conditions of this Prospectus or which are illegible, incomplete, incorrectly completed or which are accompanied by improperly drawn remittances or improper form of remittances.**
2. Your Application Forms must be completed in English. Please type or write clearly in ink using **BLOCK LETTERS**.
3. All spaces in the Application Forms except those under the heading “FOR OFFICIAL USE ONLY” must be completed and the words “NOT APPLICABLE” or N.A.” should be written in any space that is not applicable.

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4. Individuals, corporations, approved nominee companies and trustees must give their names in full. You must make your application, in the case of individuals, in your full names appearing in your identity cards (if applicants have such identification documents) or in your passports and, in the case of corporations, in your full names as registered with a competent authority. If you are a non-individual completing the Application Form under the hand of an official, you must state the name and capacity in which that official signs. If you are a corporation completing the Application Form, you are required to affix your Common Seal (if any) in accordance with your Memorandum and Articles of Association or equivalent constitutive documents. If you are a corporate applicant and your application is successful, a copy of your Memorandum and Articles of Association or equivalent constitutive documents must be lodged with the Share Registrar and Share Transfer office. We reserve the right to require you to produce documentary proof of identification for verification purposes.
5.
  - (a) You must complete Sections A and B and sign page 1 of the Application Form.
  - (b) You are required to delete either paragraph 7(a) or 7(b) on page 1 of the Application Form. Where paragraph 7(a) is deleted, you must also complete Section C of the Application Form with particulars of the beneficial owner(s).
  - (c) If you fail to make the required declaration in paragraph 7(a) or 7(b), as the case may be, on page 1 of the Application Form, your application is liable to be rejected.
6. You (whether you are an individual and corporate applicant, whether incorporated or unincorporated and wherever incorporated or constituted), will be required to declare whether you are a citizen or permanent resident of Singapore or a corporation in which citizens or permanent residents of Singapore or any body corporate constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporations. If you are an approved nominee company, you are required to declare whether the beneficial owner of the Invitation Shares is a citizen or permanent resident of Singapore or a corporation, whether incorporated or unincorporated and wherever incorporated or constituted, in which citizens or permanent residents of Singapore or any body corporate whether incorporated or unincorporated and wherever incorporated or constituted under any statute of Singapore have an interest in the aggregate of more than 50 per cent. of the issued share capital of or interests in such corporation.
7. Your application must be accompanied by a remittance in Singapore currency for the full amount payable, in respect of the number of Invitation Shares applied for, in the form of a BANKER'S DRAFT or CASHIER'S ORDER drawn on a bank in Singapore, made out in favour of **"ISDN SHARE ISSUE ACCOUNT"** crossed "A/C PAYEE ONLY", with your name and address written clearly on the reverse side. **We will not accept applications accompanied by ANY OTHER FORM OF PAYMENT.** We will reject remittances bearing "NOT TRANSFERABLE" or "NON TRANSFERABLE" crossings. **No acknowledgement or receipt will be issued by us or the Manager for applications and application monies received.**
8. Unsuccessful applications are expected to be returned (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post within 24 hours of the balloting after the close of the Application List at your own risk. Where your application is accepted in part only, the balance of the application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by ordinary post at your own risk in the shortest possible time.
9. Capitalised terms used in the Application Forms and defined in this Prospectus shall bear the meanings assigned to them in this Prospectus.

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10. By completing and delivering the Application Form in accordance with the provisions of this Prospectus, you agree that:-
- (a) in consideration of us having distributed the Application Form to you and agreeing to close the Application List at **12.00 noon on 22 November 2005 or such other further period or periods as our Company and the Vendors may, in consultation with the Manager, decide** and by completing and delivering the Application Form, you agree that:-
    - (i) your application is irrevocable; and
    - (ii) your remittance will be honoured on first presentation and that any monies returnable may be held pending clearance of your payment without interest or any share of revenue or other benefit arising therefrom;
  - (b) all applications, acceptances and contracts resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and that you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
  - (c) in respect of the Invitation Shares for which your application has been received and not rejected, acceptance of your application shall be constituted by written notification and not otherwise, notwithstanding any remittance being presented for payment by or on our behalf;
  - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
  - (e) in making your application, reliance is placed solely on the information contained in this Prospectus and none of our Company, the Vendors, the Manager, the Placement Agent and Underwriter or any other person involved in the Invitation shall have any liability for any information not so contained.

**Applications for Offer Shares**

- 1. Your applications for Offer Shares **MUST** be made using the **WHITE** Offer Shares Application Forms and **WHITE** official envelopes "A" and "B". **ONLY ONE APPLICATION** should be enclosed in each envelope.
- 2. You must:-
  - (a) enclose the **WHITE** Offer Shares Application Form, duly completed and signed, together with your remittance in the **WHITE** envelope "A" provided;
  - (b) in the appropriate spaces on **WHITE** envelope "A":-
    - (i) write your name and address;
    - (ii) state the number of Offer Shares applied for; and
    - (iii) affix adequate Singapore postage;
  - (c) seal **WHITE** envelope "A"; and

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- (d) write, in the appropriate box provided on the larger **WHITE** envelope "A" addressed to **LIM ASSOCIATES, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, the number of Offer Shares you have applied for; and insert **WHITE** envelope "A" into **WHITE** envelope "B", seal **WHITE** envelope "B" and thereafter **DESPATCH BY ORDINARY POST OR DELIVER BY HAND** at your own risk to **LIM ASSOCIATES, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, so as to arrive by **12.00 noon on 22 November 2005 or such other further period or periods as our Company and the Vendors may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Applications that are illegible, incomplete or incorrectly completed or accompanied by improperly drawn remittances are liable to be rejected.

**Applications for Placement Shares (other than Reserved Shares and Internet Placement Shares)**

1. Your application for Placement Shares **MUST** be made using the **BLUE** Placement Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed and signed **BLUE** Placement Shares Application Form and your remittance, in accordance with the terms and conditions of this Prospectus, for the full amount payable in respect of the number of Placement Shares applied for, with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. You must affix adequate Singapore postage on the envelope (if despatching by ordinary post) and thereafter the sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at your own risk to **LIM ASSOCIATES, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12.00 noon on 22 November 2005 or such other period or further periods as our Company and the Vendors may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.
3. Alternatively, you may remit your application monies by electronic transfer to the account of **BANK OF EAST ASIA, LIMITED**, account number 90090659, in favour of **"ISDN SHARE ISSUE ACCOUNT"** for the number of Placement Shares applied for by **12.00 noon on 22 November 2005 or such other period or further periods as our Company and the Vendors may, in consultation with the Manager, decide.** If you remit your application monies via electronic transfer, you should fax and send a copy of the remittance advice to Westcomb Capital Pte Ltd at fax number 6227 3936 to arrive by **12.00 noon on 22 November 2005 or such other period or further periods as our Company and the Vendors may, in consultation with the Manager, decide.**

**Applications for Reserved Shares**

1. Your application for Reserved Shares **MUST** be made using the **PINK** Reserved Shares Application Forms. **ONLY ONE APPLICATION** should be enclosed in each envelope.
2. The completed and signed **PINK** Reserved Shares Application Form and your remittance, in accordance with the terms and conditions of this Prospectus, for the full amount payable in respect of the number of Reserved Shares applied for, with your name and address written clearly on the reverse side, must be enclosed and sealed in an envelope to be provided by you. You must affix adequate Singapore postage on the envelope (if despatching by ordinary post) and thereafter the sealed envelope must be **DESPATCHED BY ORDINARY POST OR DELIVERED BY HAND** at your own risk to **LIM ASSOCIATES, 10 COLLYER QUAY #19-08 OCEAN BUILDING, SINGAPORE 049315**, to arrive by **12.00 noon on 22 November 2005 or such other period or further periods as we may, in consultation with the Manager, decide. Local Urgent Mail or Registered Post must NOT be used.** No acknowledgement of receipt will be issued for any application or remittance received.



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3. Alternatively, you may remit your application monies by electronic transfer to the account of BANK OF EAST ASIA, account number 90090659, in favour of **"ISDN SHARE ISSUE ACCOUNT"** for the number of Reserved Shares applied for by **12.00 noon on 22 November 2005 or such other period or further periods as we may, in consultation with the Manager, decide.** If you remit your application monies via electronic transfer, you should fax and send a copy of the remittance advice to Westcomb Capital Pte Ltd at fax number 6227 3936 to arrive by **12.00 noon on 22 November 2005 or such other period or further periods as we may, in consultation with the Manager, decide.**

#### ADDITIONAL TERMS AND CONDITIONS FOR ELECTRONIC APPLICATIONS

The procedures for Electronic Applications at ATMs are set out on the ATM screens (in the case of ATM Applications), the IB Website screens (in the case of IB Applications) of the relevant Participating Banks and the IPO Website screen (in the case of Internet Placement Applications).

Currently, DBS Bank and the UOB Group are the only Participating Banks through which an IB Application can be made on.

For illustration purposes, the procedures for Electronic Applications through ATMs of DBS Bank, the IB Website of DBS Bank and the IPO Website are set out respectively in the "Steps for Applications for Offer Shares through ATMs of DBS Bank", the "Steps for Applications of Offer Shares through the IB Website of DBS Bank" and the "Steps for Applications for Internet Placement Shares through the IPO Website" (collectively known as the "Steps") appearing in Appendix A of this Prospectus.

The Steps set out the actions that you must take at an ATM and the IB Website of DBS Bank or the IPO Website to complete an Electronic Application. Please read carefully the terms of this Prospectus, the Steps and the terms and conditions for Electronic Applications set out below before making an Electronic Application.

Any reference to "you" in the additional terms and conditions for Electronic Applications and the Steps shall refer to you making an application for:-

- (a) Offer Shares through an ATM or the IB Website of a relevant Participating Bank; or
- (b) Internet Placement Shares through the IPO Website.

To make an ATM Application:-

- (a) You must have an existing bank account with and be an ATM cardholder of one of the Participating Banks before you can make an Electronic Application at the ATMs. An ATM card issued by one Participating Bank cannot be used to apply for Offer Shares at an ATM belonging to other Participating Banks. Upon the completion of your ATM Application transaction, you will receive an ATM transaction slip ("Transaction Record"), confirming the details of your ATM Application. The Transaction Record is for your retention and should not be submitted with any Application Form.
- (b) You must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. If you operate a joint bank account with any of the Participating Banks, you must ensure that you enter your own Securities Account number when using the ATM card issued to you in your own name. Using your own Securities Account number with an ATM card which is not issued to you in your own name will render your Electronic Application liable to be rejected.



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To make an IB Application, you must have an existing bank account with and an IB User Identification (“User ID”) and a Personal Identification Number/Password given by the relevant Participating Bank. Upon completion of your IB Application, there will be an on-screen confirmation (“Confirmation Screen”) of the application which you can print out for your record. This printed record of the Confirmation Screen is for your retention and should not be submitted with any Application Form.

To make an Internet Placement Application, you must be registered as a user of the IPO Website and have a User Name (“User Name”) and a Password given by the IPO Website Operator. Upon completion of your Internet Placement Application, there will be an on-screen confirmation (“Provisional Allocation Screen”) of the application which you can print out for your record. This printed record of the Provisional Allocation Screen is for your retention and is to accompany your payment for the Internet Placement Shares, and should not be submitted with any Application Form. An electronic mail (email) containing the information in the Provisional Allocation Screen will also be sent to your email address registered with the IPO Website Operator.

Further, you must ensure, when making an IB Application or Internet Placement Application that:-

- (a) **you are currently in Singapore at the time of making of such application;**
- (b) **your mailing address for IB with the relevant Participating Bank and the IPO Website is in Singapore;**
- (c) **you are not a US person<sup>(1)</sup> (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended from time to time),**

**and you will be asked to declare the above accordingly. Otherwise, your application is liable to be rejected.**

**Note:-**

- (1) For details, please refer to definition of “US person” on the IB Websites or the IPO Website.

Your Electronic Application shall be made on the terms and subject to the conditions of this Prospectus including but not limited to the terms and conditions appearing below and those set out under the section on “TERMS AND CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE” in Appendix A of this Prospectus as well as the Memorandum and Articles of Association of our Company.

1. In connection with your Electronic Application for Invitation Shares, you may be required to confirm statements to the following effect in the course of activating the Electronic Application:-
  - (a) **that you have received a copy of this Prospectus and have read, understood and agreed to all the terms and conditions of application for Invitation Shares and this Prospectus prior to effecting the Electronic Application and agreed to be bound by the same;**
  - (b) **that you consent to the disclosure of your name, NRIC/passport number, address, nationality, permanent resident status, CDP Securities Account number, and share application amount (the “Relevant Particulars”) from your account with that Participating Bank or the IPO Website Operator to the Share Registrar, CDP, SCCS, our Company, the Vendors, the Manager, the Placement Agent and Underwriter (the “Relevant Parties”); and**
  - (c) **that this is your only application and it is made in your own name and at your own risk.**

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Your Electronic Application will not be successfully completed and cannot be recorded as a completed transaction unless you press the “Enter” or “OK” or “Confirm” or “Yes” key. By doing so, you shall be treated as signifying your confirmation of each of the above three statements. In respect of statement 1(b) above, your confirmation, by pressing the “Enter” or “OK” or “Confirm” or “Yes” key, shall signify and shall be treated as your written permission, given in accordance with the relevant laws of Singapore including Section 47(2) of the Banking Act, Chapter 19 of Singapore to the disclosure by that Participating Bank or the IPO Website Operator of your Relevant Particulars to the Relevant Parties.

2. **BY MAKING AN ELECTRONIC APPLICATION, YOU CONFIRM THAT YOU ARE NOT APPLYING FOR INVITATION SHARES AS NOMINEE OF ANY OTHER PERSON AND THAT ANY ELECTRONIC APPLICATION THAT YOU MAKE IS THE ONLY APPLICATION MADE BY YOU AS BENEFICIAL OWNER.**

**YOU SHOULD MAKE ONLY ONE ELECTRONIC APPLICATION FOR INVITATION SHARES AND SHOULD NOT MAKE ANY OTHER APPLICATION FOR OFFER SHARES OR PLACEMENT SHARES, WHETHER AT THE ATMS OR THE IB WEBSITES OR ON THE APPLICATION FORMS OR THROUGH THE IPO WEBSITE. IF YOU HAVE MADE AN APPLICATION FOR INVITATION SHARES ON AN APPLICATION FORM, YOU SHALL NOT MAKE AN ELECTRONIC APPLICATION FOR INVITATION SHARES AND VICE VERSA.**

3. For an ATM Application or IB Application, you must have sufficient funds in your bank account with your Participating Bank at the time you make your ATM Application or IB Application, failing which your ATM Application or IB Application will not be completed. **Any ATM Application or IB Application which does not conform strictly to the instructions set out on the screens of the ATM or IB Website through which your ATM Application or IB Application is being made shall be rejected.**

An applicant who makes an application for Invitation Shares through the IPO Website will be advised through the IPO Website on the amount payable and the method(s) of payment.

4. You irrevocably agree and undertake to subscribe for and to accept the number of Invitation Shares applied for as stated on the Transaction Record, Confirmation Screen or Provisional Allocation Screen. You also irrevocably agree and undertake to subscribe for and to accept any lesser number of Invitation Shares that may be allotted to you in respect of your Electronic Application. In the event that our Company decides to allot any lesser number of such Invitation Shares or not to allot any Invitation Shares to you, you agree to accept such decision as final.

If your Electronic Application is successful, your confirmation (by your action of pressing the “Enter” or “OK” or “Confirm” or “Yes” key on the ATM, clicking “Confirm” or “OK” on the IB Website screen or “Confirm” on the IPO Website screen) of the number of Invitation Shares applied for shall signify and shall be treated as your acceptance of the number of Invitation Shares that may be allotted to you and your agreement to be bound by the Memorandum and Articles of Association of our Company.

5. **Our Company and the Vendors will not keep any applications in reserve.** Where your Electronic Application is unsuccessful, the full amount of the application monies will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank within 24 hours of the balloting after the close of the Application List. **Trading on a “READY” basis, if applicable, is expected to commence after such refund has been made.**

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Where your Electronic Application is rejected or accepted in part only, the full amount or the balance of the application monies as the case may be, will be refunded (without interest or any share of revenue or other benefit arising therefrom) to you by being automatically credited to your account with your Participating Bank or if you have applied for the Internet Placement Shares through the IPO Website, by ordinary post or such other means as the IPO Website Operator may agree with you, at your own risk, within 10 Market Days after the close of the Application List provided that the remittance in respect of such application which has been presented for payment or other processes has been honoured and the application monies received in the designated share issue account.

Responsibility for timely refund of application monies arising from unsuccessful or partially successful Electronic Applications lies solely with the respective Participating Banks and with the IPO Website Operator as the case may be. Therefore, you are strongly advised to consult your Participating Bank or the IPO Website Operator as to the status of your Electronic Application and/or the refund of any monies to you from unsuccessful or partially successful Electronic Application, to determine the exact number of Invitation Shares allotted to you before trading the Invitation Shares on the SGX-ST. Neither the SGX-ST, CDP, the SCCS, the Participating Banks, the IPO Website Operator, our Company, the Vendors, the Manager, the Placement Agent and Underwriter assume any responsibility for any loss that may be incurred as a result of you having to cover any net sell positions or from buy-in procedures activated by the SGX-ST.

6. If your Electronic Application is made through the ATMs of DBS Bank, OCBC, or the UOB Group, and is unsuccessful, no notification will be sent by such Participating Bank.

If your Electronic Application made through the IB Website of DBS Bank or UOB Group is unsuccessful, no notification will be sent by such Participating Bank.

Any Internet Placement Application made through the IPO Website is on a first-come-first-served cum balloting basis, and is subject to availability at the point of application. If your Internet Placement Application is unsuccessful, an email notification will be sent to your email address registered with the IPO Website Operator.

If you make Electronic Applications through the following Participating Banks, you may check the provisional results of your Electronic Applications as follows:-

Bank	Telephone	Available at	Operating hours	Service expected from
DBS Bank	1800 339 6666 (for POSB account holders)  1800 111 1111 (for DBS account holders)	www.dbs.com	24 hours a day	Evening of the balloting day
OCBC	1800 363 3333	ATM	ATM/Phone Banking – 24 hours a day	Evening of the balloting day
UOB Group	1800 222 2121	ATM (Other Transactions – “IPO Enquiry”) <sup>(1)</sup>  www.uobgroup.com <sup>(1)</sup>	ATM/Phone Banking – 24 hours a day  Internet Banking – 24 hours a day	Evening of the balloting day

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**Note:-**

- (1) You may also check the results of your application through UOB Personal Internet Banking, UOB Group ATMs or UOB PhoneBanking Services.

If you make your Electronic Application through the IPO Website, you can check the result of your application through the IPO Website. If your application is successful, you will be notified of the results of your application via an email sent to the email address registered with the IPO Website Operator.

7. Electronic Applications shall close at **12.00 noon on 22 November 2005** or such other further period or periods as we may, in consultation with the Manager, decide.
8. You are deemed to have requested and authorised us to:-
  - (a) register the Offer Shares or Placement Shares, as the case may be, allotted to you in the name of CDP for deposit into your Securities Account;
  - (b) send the relevant Share certificate(s) to CDP;
  - (c) (for ATM Applications or IB Applications) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) the application monies, should your Electronic Application be rejected, by automatically crediting your bank account with your Participating Bank with the relevant amount within 24 hours of the balloting after the close of the Application List;
  - (d) (for ATM Applications or IB Applications) return or refund (without interest or any share of revenue or other benefit arising therefrom) the balance of the application monies, should your Electronic Application be accepted in part only, by automatically crediting your bank account with your Participating Bank with the relevant amount within the shortest possible time after the close of the Application List; and
  - (e) (for Internet Placement Applications) return or refund (without interest or any share of revenue earned or other benefit arising therefrom) of the full application monies, should your Internet Placement Application be rejected, is expected to be effected to you by ordinary post at your own risk within 14 days after the close of the Application List.
9. You irrevocably agree and acknowledge that your Electronic Application is subject to risks of electrical, electronic, technical and computer-related faults and breakdowns, fires, acts of God and other events beyond the control of the Participating Banks and/or the IPO Website Operator and if, in any such event, our Company, the Manager, the relevant Participating Bank and/or the IPO Website Operator do not receive your Electronic Application, or data relating to your Electronic Application is lost, corrupted or not otherwise accessible, whether wholly or partially for whatever reason, you shall be deemed not to have made an Electronic Application and you shall have no claim whatsoever against our Company, the Manager, the relevant Participating Bank and/or the IPO Website Operator for Invitation Shares applied for or for any compensation, loss or damage.
10. Our Company and the Vendors do not recognise the existence of a trust. Any Electronic Application by a trustee must be made in your own name and without qualification. Our Company and the Vendors will reject any application by any person acting as nominee.

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11. All your particulars in the records of your Participating Bank or the IPO Website Operator at the time you make your Electronic Application shall be deemed to be true and correct and your Participating Bank, the IPO Website Operator and the Relevant Parties shall be entitled to rely on the accuracy thereof. If there has been any change in your particulars after making your Electronic Application, you shall promptly notify your Participating Bank or the IPO Website Operator, as the case may be.
12. **You should ensure that your personal particulars as recorded by CDP, the relevant Participating Bank or the IPO Website Operator are correct and identical, otherwise, your Electronic Application is liable to be rejected.** You should promptly inform CDP of any change in address, failing which the notification letter on successful allotment will be sent to your address last registered with CDP.
13. By making and completing an Electronic Application, you are deemed to have agreed that:-
  - (a) in consideration of our Company making available the Electronic Application facility, through the Participating Banks or the IPO Website Operator acting as agents of our Company, at the ATMs, the IB Websites and the IPO Website:-
    - (i) your Electronic Application is irrevocable; and
    - (ii) your Electronic Application, the acceptance of our Company and the contract resulting therefrom under the Invitation shall be governed by and construed in accordance with the laws of Singapore and you irrevocably submit to the non-exclusive jurisdiction of the Singapore courts;
  - (b) none of our Company, the Vendors, the Manager, the Participating Banks or the IPO Website Operator shall be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to your Electronic Application to us or CDP due to breakdowns or failures in transmission, delivery or communication facilities or any risks referred to in paragraph 9 above or to any cause beyond their respective controls;
  - (c) in respect of Offer Shares for which your Electronic Application has been successfully completed and not rejected, acceptance of your Electronic Application shall be constituted by written notification by or on behalf of our Company and not otherwise, notwithstanding any payment received by or on behalf of our Company;
  - (d) you will not be entitled to exercise any remedy of rescission for misrepresentation at any time after acceptance of your application; and
  - (e) reliance is placed solely on information contained in this Prospectus and that none of our Company, the Vendors, the Manager, the Placement Agent and Underwriter nor any other person involved in the Invitation shall have any liability for any information not so contained.
14. CDP shall not be liable for any delays, failures or inaccuracies in the recording, storage or in the transmission or delivery of data relating to the electronic application.

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#### Steps for Applications for Offer Shares through ATMs of DBS Bank

Instructions for ATM Applications will appear on the ATM screens of the Participating Banks. For illustration purposes, the steps for making an ATM Application through an ATM of DBS Bank are shown below. Certain words appearing on the screen are in abbreviated form (“A/c”, “amt”, “appln”, “&”, “I/C”, “SGX”, “No.” and “Max” refer to “Account”, “amount”, “application”, “and”, “NRIC”, “SGX-ST”, “Number” and “Maximum”, respectively. Instructions for ATM Applications on the ATM screens of Participating Banks (other than DBS Bank) may differ slightly from those represented below.

- Step 1 : Insert your personal DBS Bank or POSB ATM Card.
- 2 : Enter your Personal Identification Number.
- 3 : Select “CASHCARD & MORE SERVICES”.
- 4 : Select “ESA-IPO SHARE/INVESTMENTS”.
- 5 : Select “ELECTRONIC SECURITY APPLN (IPOS/BONDS/ST-NOTES)” to “ISDN”.
- 6 : Read and understand the following statements which will appear on the screen:

THE OFFER OF SECURITIES (OR UNITS OF SECURITIES) WILL BE MADE IN, OR ACCOMPANIED BY, A COPY OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT) WHICH CAN BE OBTAINED FROM ANY DBS/POSB BRANCH IN SINGAPORE AND, WHERE APPLICABLE, THE VARIOUS PARTICIPATING BANKS DURING BANKING HOURS, SUBJECT TO AVAILABILITY.

ANYONE WISHING TO ACQUIRE THESE SECURITIES (OR UNITS OF SECURITIES) SHOULD READ THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE) BEFORE SUBMITTING HIS APPLICATION WHICH WILL NEED TO BE MADE IN THE MANNER SET OUT IN THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT (AS SUPPLEMENTED OR REPLACED, IF APPLICABLE). A COPY OF THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT, AND IF APPLICABLE, A COPY OF THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT HAS BEEN LODGED WITH AND REGISTERED BY THE MONETARY AUTHORITY OF SINGAPORE WHO ASSUMES NO RESPONSIBILITY FOR ITS OR THEIR CONTENTS.

Press the “ENTER” key to confirm that you have read and understood.

- 7 : Press the “ENTER” key to acknowledge:-

YOU HAVE READ, UNDERSTOOD AND AGREED TO ALL TERMS OF THE APPLICATION AND PROSPECTUS/DOCUMENT OR PROFILE STATEMENT, AND IF APPLICABLE, THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT.

YOU CONSENT TO DISCLOSE YOUR NAME, NRIC/PASSPORT NO., ADDRESS, NATIONALITY, CDP SECURITIES A/C NO., CPF INVESTMENT A/C NO. AND SECURITIES APPLN AMOUNT FROM YOUR BANK A/C(S) TO SHARE REGISTRARS, SGX, SCCS, CDP, CPF AND THE ISSUER/VENDOR(S).



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## APPENDIX A

### TERMS, CONDITIONS AND PROCEDURES FOR APPLICATION AND ACCEPTANCE

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FOR FIXED AND MAX PRICE SECURITIES APPLICATION, THIS IS YOUR ONLY APPLICATION AND IT IS MADE IN YOUR OWN NAME AND AT YOUR OWN RISK.

THE MAXIMUM PRICE FOR EACH SHARE IS PAYABLE IN FULL ON APPLICATION AND SUBJECT TO REFUND IF THE FINAL PRICE IS LOWER.

FOR TENDER PRICE SECURITIES APPLICATION, THIS IS YOUR ONLY APPLICATION AT THE SELECTED TENDER PRICE AND IT IS MADE IN YOUR OWN NAME AND AT YOUR OWN RISK.

YOU ARE NOT A US PERSON AS REFERRED TO IN THE PROSPECTUS/DOCUMENT OR PROFILE STATEMENT AND IF APPLICABLE, THE REPLACEMENT OR SUPPLEMENTARY PROSPECTUS/DOCUMENT OR PROFILE STATEMENT.

- 8 : Select your nationality.
- 9 : Select the DBS Bank account (Autosave/Current/Savings/Savings Plus) or the POSB account (current/savings) from which to debit your application monies.
- 10 : Enter the number of securities you wish to apply for using cash.
- 11 : Enter your own 12-digit CDP Securities Account number. (Note: This step will be omitted automatically if your CDP Securities Account number has already been stored in DBS Bank's records).
- 12 : Check the details of your share application, your NRIC or passport number and CDP Securities Account number and number of securities on the screen and press the "ENTER" key to confirm your application.
- 13 : Remove the Transaction Record for your reference and retention only.

#### **Steps for Applications for Offer Shares through the IB Website of DBS Bank**

For illustrative purposes, the steps for making an IB Application through the IB Website of DBS Bank are shown below. Certain words appearing on the screen are in abbreviated form ("A/C", "amt", "&", "I/C", "SGX" and "No." refer to "Account", "amount", "and", "NRIC", "SGX-ST", and "Number" respectively).

- Step 1 : Click on to DBS Bank website ([www.dbs.com](http://www.dbs.com)).
- 2 : Login to Internet banking.
- 3 : Enter your User ID and PIN.
- 4 : Select "Electronic Security Application (ESA)".
- 5 : Click "Yes" to proceed and to warrant that you have observed and complied with all applicable laws and regulations.
- 6 : Select your country of residence.
- 7 : Click on "ISDN" and click the "Submit" button.



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**APPENDIX A**  
**TERMS, CONDITIONS AND PROCEDURES FOR**  
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- 8 : Click “Confirm” to confirm:-
- (a) You have read, understood and agreed to all terms of this application and the Prospectus/Document or Profile Statement and if applicable, the Supplementary or Replacement Prospectus/Document or Profile Statement.
  - (b) You consent to disclose your name, I/C or Passport No., address, nationality, CDP Securities Account number, CPF Investment Account number (if applicable) and securities application amount from your DBS/POSB Account(s) to registrars of securities, SGX, SCCS, CDP, CPF Board and issuer/vendor(s).
  - (c) You are not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1993, as amended).
  - (d) This application is made in your name and at your own risk.
  - (e) For FIXED/MAX price securities application, this is your only application. For TENDER price securities application, this is your only application at the selected tender price.
- 9 : Fill in details for share application and click “Submit”.
- 10 : Check the details of your share application, your NRIC or passport number and click “OK” to confirm your application.
- 11 : Print Confirmation Screen (optional) for your reference & retention only.

**Steps for Applications for Internet Placement Shares through the IPO Website**

For illustrative purposes, the steps for making an Internet Placement Application are shown below. Certain words appearing on the screen are in abbreviated form (“A/C”, “&”, “I/C” and “No.” refer to “Account”, “and”, “NRIC” and “Number” respectively).

- Step 1 : Click on to the IPO Website ([www.ePublicOffer.com](http://www.ePublicOffer.com))
- 2 : Login by entering your User Name and Password
- 3 : Select the counter “ISDN” from the list of current counters offered by clicking “Apply Now”.
- 4 : Click “I Agree” to proceed and to warrant that you have observed and complied with all applicable laws and regulations and agree to the terms and conditions stated on the IPO Website
- 5 : View and/or download a copy of the Prospectus
- 6 : Click the check box provided next to the following statements to confirm your declaration:
- (1) I have read, understood & agreed to these terms and conditions, and the Prospectus/Document or Profile Statement and if applicable, the Replacement or Supplementary Prospectus/Document or Profile Statement in relation to the IPO Shares;

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**APPENDIX A**  
**TERMS, CONDITIONS AND PROCEDURES FOR**  
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- (2) I consent to the disclosure of my name, I/C or passport number, address, nationality, CDP Securities Account number, and securities application amount to share registrars of the securities, the SGX-ST, SCCS, CDP, the issuer/vendor(s) of the IPO Shares;
  - (3) I am currently resident in Singapore;
  - (4) I am not a US Person (as such term is defined in Regulation S under the United States Securities Act of 1933, as amended) and not currently resident in United States;
  - (5) I understand that the IPO shares have not been and will not be registered under the United States securities law and, subject to certain exception, may not be offered or sold within the United States, that there will be no public offer of the IPO shares in the United States, and any failure to comply with this restriction may constitute a violation of United States securities laws;
  - (6) This application for the IPO shares is made in my own name and at my own risk;
  - (7) I am not an associate (as defined in the Listing Manual of the SGX-ST) or a director or substantial shareholder (as defined in the Companies Act (Chapter 50) of Singapore) of the Issuer.
- 7 : Click “Confirm” when you have completed the above steps.
- 8 : Check details of your application, (including information on your name, your CDP number, your NRIC number, your email address, the amount payable) on the screen and click “CONFIRM” to confirm your application
- 9 : Print Provisional Allocation Screen and proceed to make payment as described in the Provisional Allocation Screen

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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**1. Name of the Scheme**

The Scheme shall be called the “ISDN Holdings Share Option Scheme”.

**2. Definitions**

2.1 In this Scheme, except where the context otherwise requires, the following words and expressions shall have the following meanings:-

“Acceptance Period”	The period within which an Option may be accepted, as described in Rule 7.2
“Act”	The Companies Act, Chapter 50 of the Republic of Singapore, as amended or modified from time to time
“Adoption Date”	The date on which the Scheme is adopted by the Company in general meeting
“Aggregate Subscription Cost”	The total amount payable for the Shares to be subscribed for on the exercise of an Option
“Associated Company”	A company in which at least 20% but not more than 50% of its shares are held by the Company or the Group and over which the Company has control
“Associated Company Employee”	An executive or non-executive director of an Associated Company or a full time employee of an Associated Company selected by the Committee to participate in the Scheme in accordance with Rule 4.1 (b)
“Auditors”	The auditors for the time being of the Company
“Board”	The board of directors for the time being of the Company
“CDP”	The Central Depository (Pte) Limited
“CPF”	Central Provident Fund
“Committee”	A committee comprising directors of the Company duly authorised and appointed by the Board to administer the Scheme
“Company”	ISDN Holdings Limited, a company incorporated in the Republic of Singapore
“Controlling Shareholder”	A Group Employee or an Associated Company Employee who, in relation to the Company:-  (a) holds directly or indirectly fifteen per cent (15%) or more of the issued share capital of the Company; or  (b) in fact exercise control over the Company.

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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“Depository Agent”	An entity registered as a depository agent with CDP for the purpose of maintaining securities sub-accounts for its own account and for the account of others
“Group”	The Company and its subsidiaries
“Group Employee”	An executive or non-executive director of any member of the Group or a full-time employee of any member of the Group who is selected by the Committee to participate in the Scheme in accordance with Rule 4.1(a)
“Incentive Option”	The right to subscribe for Shares granted or to be granted pursuant to the Scheme and for the time being subsisting, and in respect of which the Subscription Price is determined in accordance with Rule 8.2
“Market Day”	A day on which the SGX-ST is open for trading in securities
“Market Price Option”	The right to subscribe for Shares granted or to be granted pursuant to the Scheme and for the time being subsisting, and in respect of which the Subscription Price is determined in accordance with Rule 8.1
“Offering Date”	The date on which an Option is granted pursuant to Rule 6.1
“Option”	A Market Price Option or an Incentive Option, as the case may be
“Option Period”	The period for the exercise of an Option as set out in Rule 9.1
“Participant”	The holder of an Option
“Rules”	The rules of the Scheme, as amended from time to time
“Scheme”	The ISDN Holdings Share Option Scheme, as modified or altered from time to time
“SGXST”	Singapore Exchange Securities Trading Limited
“Shareholders”	The registered holders of the Shares or in the case of Depositors, Depositors who have Shares entered against their names in the Depository Register
“Shares”	Fully-paid ordinary shares of S\$0.05 each in the capital of the Company
“Subscription Price”	The price at which a Participant shall subscribe for each Share upon the exercise of an Option as determined in accordance with Rule 8.1 in relation to a Market Price Option, and Rule 8.2 in relation to an Incentive Option

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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“S\$” Singapore dollars

“%” Per centum

2.2 For the purposes of the Scheme:

- (a) in relation to a company (including, where the context requires, the Company), “control” means the capacity to dominate decision-making, directly or indirectly, in relation to the financial and operating policies of that company;
- (b) unless rebutted, a person who holds directly or indirectly, a shareholding of 15% or more of the Company’s issued share capital shall be presumed to be a Controlling Shareholder; and
- (c) in relation to a Controlling Shareholder, his “associate” means his parent, sibling, spouse, or child (including adopted or step child).

2.3 Any reference in the Scheme to any enactment is a reference to that enactment as for the time being amended or re-enacted. Any word defined under the Act and used in these Rules shall have the meaning assigned to it under the Act.

2.4 Words importing the singular number shall include the plural number where the context admits and vice versa. Words importing the masculine gender shall include the feminine gender where the context admits.

2.5 Any reference to a time of day shall be a reference to Singapore time.

### 3. Objectives

The Scheme is a share incentive scheme. The purpose of the Scheme is to provide an opportunity for Executive Directors and employees of the Group to participate in the equity of the Company so as to motivate them to greater dedication, loyalty and higher standards of performance and to give recognition to Non-Executive Directors of the Group, Employees and Associated Company Employees who have contributed to the success and development of the Company and/or Group. The Scheme is proposed on the basis that it is important to acknowledge the contribution, which is essential to the well-being and prosperity of the Group, made by these categories of persons. The Company, by adopting the Scheme, will give these categories of persons a real and meaningful stake in the Company at no direct cost to its profitability and will help to achieve the following objectives:-

- (a) the motivation of Participants to optimise performance standards and efficiency and to maintain a high level of contribution;
- (b) the retention of key employees whose contributions are important to the long term growth and prosperity of the Group;
- (c) the attainment of harmonious employer/staff relations, as well as the strengthening of working relationships with the Group’s close business associates; and
- (d) the development of a participatory style of management which promotes greater commitment and dedication amongst the employees and instills loyalty and a stronger sense of identification with the long-term prosperity of the Group.

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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#### 4. Eligibility

The following persons shall be eligible to participate in the Scheme at the absolute discretion of the Committee:-

(a) Group Employees

- (i) confirmed full-time employees of the Company and/or its subsidiaries who have attained the age of 21 years on or before the Offering Date;
- (ii) directors of the Company and/or its subsidiaries who perform an executive function;
- (iii) Non-executive Directors of the Company; and
- (iv) employees who qualify under sub-paragraph (i) above and are seconded to a company in an Associated Company, or any other company outside the Group in which the Company and/or Group has an equity interest.

(b) Associated Company Employees

- (i) confirmed full-time employees of an Associated Company who have attained the age of 21 years and above on or before the Offering Date;
- (ii) directors of an Associated Company who perform an executive function; and
- (iii) non-executive directors of an Associated Company.

Provided That persons who are Controlling Shareholders and their associates (notwithstanding that they may meet the eligibility criteria in Rule 4.1(a) and Rule 4.1(b)) shall not participate in the Scheme.

For the purposes of paragraphs (a)(i) and (b)(i) above, the secondment of an employee to another company shall not be regarded as a break in his employment or his having ceased by reason only of such secondment to be a full-time employee of the Group.

- 4.2 Subject to the Act and any requirement of the SGX-ST, the terms of eligibility for participation in the Scheme may be amended from time to time at the absolute discretion of the Committee, which would be exercised judiciously.
- 4.3 There shall be no restriction on the eligibility of any Participant to participate in any other share option or share incentive schemes implemented by any other companies within the Group or by any Associated Company or otherwise.
- 4.4 Shareholders who are eligible to participate in the Scheme shall abstain from voting on any resolution relating to the Scheme (other than resolution relating to the participation of, or grant of options to, directors and employees of the Company's parent company and its subsidiaries).

#### 5. Limitations on the Scheme

- 5.1 The aggregate number of Shares over which the Committee may grant Options on any date, when added to the number of Shares issued and issuable in respect of all Options granted under the Scheme, shall not exceed 15% of the issued Shares of the Company on the date preceding the grant of an Option.

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## **APPENDIX B**

### **TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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- 5.2 The number of Shares comprised in Market Price Options or, as the case may be, Incentive Options, to be offered to any Group Employee or Associated Company Employee in accordance with the Scheme shall be determined at the absolute discretion of the Committee, who shall take into account, in respect of a Group Employee, criteria such as rank, past performance, years of service and potential for future development of that employee and, in respect of an Associated Group Employee, his contribution to the success and development of the Group.

#### **6. Date of Grant**

- 6.1 The Committee may, subject as provided in Rule 12, grant Options at any time, provided that in the event that an announcement on any matter of an exceptional nature involving unpublished price sensitive information is imminent, Options may only be granted on or after the second Market Day from the date on which the aforesaid announcement is released.
- 6.2 The Letter of Offer to grant the Option shall be in, or substantially in, the form set out in Schedule A, subject to such modification including, but not limited to, imposing restrictions on the number of Options that may be exercised within particular sections of the relevant Option Period, as the Committee may from time to time determine.

#### **7. Acceptance of Options**

- 7.1 An Option shall be personal to the Participant to whom it is granted and shall not be transferred (other than to a Participant's personal representative on the death of that Participant), charged, assigned, pledged or otherwise disposed of, in whole or in part, unless with the prior approval of the Committee.
- 7.2 The closing date for the acceptance for the grant of any Option under this Rule 7 shall not be less than fifteen (15) days and not more than thirty (30) days from the Offering Date of that Option. The grant of an Option must be accepted by completing, signing and returning the Acceptance Form in, or substantially in, the form set out in Schedule B, subject to such modification as the Committee may from time to time determine, accompanied by payment of S\$1.00 as consideration.
- 7.3 If a grant of an Option is not accepted in the manner as provided in Rule 7.2, such offer shall, upon the expiry of the Acceptance Period, automatically lapse and become null, void and of no effect.

#### **8. Subscription Price**

- 8.1 Subject to any adjustment pursuant to Rule 12, the Subscription Price for each Share in respect of which a Market Price Option is exercisable shall be at a price (the "Market Price") equal to the average of the last dealt prices for a Share, as determined by reference to the official list or any other publication published by the SGX-ST, for 5 consecutive Market Days immediately preceding the Offering Date of that Option, rounded up to the nearest whole cent.



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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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- 8.2 Subject to any adjustment pursuant to Rule 12, the Subscription Price for each Share in respect of which an Incentive Option is exercisable shall be determined by the Committee at its absolute discretion, and fixed by the Committee at a price which is set at a discount to the Market Price (as determined in accordance with Rule 8.1), provided that:
- (a) the maximum discount shall not exceed 20% of the Market Price (or such other percentage or amount as may be prescribed or permitted for the time being by the SGX-ST). In determining the quantum of such discount, the Committee shall take into consideration such criteria as the Committee may, in its absolute discretion, deem appropriate, including but not limited to:-
    - (i) the performance of the Company and the Group;
    - (ii) the individual performance of the Participant; and
    - (iii) the contribution of the Participant to the success and development of the Company and/or the Group; and
  - (b) the prior approval of the shareholders of the Company in general meeting shall have been obtained for the making of offers and grants of Options under the Scheme at a discount not exceeding the maximum discount as aforesaid (for the avoidance of doubt, such prior approval shall be required to be obtained only once and, once obtained, shall, unless revoked, authorise the making of offers and grants of Options under the Scheme at such discount for the duration of the Scheme), rounded up to the nearest whole cent.
- 8.3 In no event shall the Subscription Price be less than the nominal value of a Share. Where the Subscription Price (as determined under Rule 8.1 or, as the case may be, Rule 8.2) is less than the nominal value of a Share, the Subscription Price shall be the nominal value.
- 9. Exercise Options**
- 9.1 Subject as provided in this Rule 9 and Rule 10 and any other conditions as may be introduced by the Committee from time to time, each Option shall be exercisable, in whole or in part, during the Option Period as follows:-
- (a) in the case of a Market Price Option, a period commencing after the first anniversary of the Offering Date and expiring on the tenth anniversary of such Offering Date, provided that in the case of a Market Price Option which is granted to a participant not holding salaried office or employment in the Group or the Associated Company, such option period shall expire on the fifth anniversary of such offering Date; and
  - (b) in the case of an Incentive Option, a period commencing after the second anniversary of the Offering Date and expiring on the tenth anniversary of such Offering Date provided that in the case of a Incentive Option which is granted to a participant not holding salaried office or employment in the Group or the Associated Company, such option period shall expire on the fifth anniversary of such offering Date.
- 9.2 In the event of an Option being exercised in part only, the balance of the Option not thereby exercised shall continue to be exercisable in accordance with the Scheme until such time as it shall lapse in accordance with the Scheme.

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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9.3 An Option shall, to the extent unexercised, immediately lapse without any claim against the Company:

- (a) subject to Rules 9.4, 9.5 and 9.7, upon the Participant ceasing to be in the full-time employment of the Group or an Associated Company, as the case may be, for any reason whatsoever; or
- (b) upon the bankruptcy of the Participant or the happening of any other event which results in his being deprived of the legal or beneficial ownership of such Option; or
- (c) in the event of any misconduct on the part of the Participant as determined by the Committee in its discretion; or
- (d) in the event that the Committee shall, at its discretion, deem it appropriate that such Option granted to a Participant shall so lapse on the grounds that any of the objectives of the Scheme (as set out in Rule 3) have not been met.

For the purpose of Rule 9.3(a), the Participant shall be deemed to have ceased to be so employed as of the earlier of the date the notice of resignation of employment or the cessation of his employment/appointment with the Group or an Associated Company, as the case may be.

9.4 If a Participant ceases to be employed by the Group or an Associated Company, as the case may be, by reason of his:-

- (a) ill health, injury or disability (in each case, evidenced to the satisfaction of the Committee);
- (b) redundancy;
- (c) retirement at or after the legal retirement age; or
- (d) retirement before the legal retirement age with the consent of the Committee,

or any other reason approved in writing by the Committee, he may exercise any unexercised Options within the relevant Option Period.

9.5 If a Participant dies and at the date of his death holds any unexercised Option, such Option may, at the discretion of the Committee, be exercised by the duly appointed personal representatives of the Participant within the relevant Option Period.

9.6 If, for any reason whatsoever, a Participant, being an Associated Company Employee by virtue of his being a non-executive director of any member of the Associated Company on the Offering Date, ceases to be a director of such member of the Associated Company, any Option then held by him shall, to the extent unexercised, immediately lapse without any claim against the Company, unless otherwise determined by the Committee in its absolute discretion. In exercising such discretion, the Committee may also determine the period during which such Option may continue to be exercisable, provided that such period may not in any event exceed the Exercise Period applicable to such Option.

9.7 If, for any reason whatsoever, a Participant, being a Group Employee by virtue of his being an executive or Non-executive Director of the Group on the Offering Date, ceases to be an Executive Director or, as the case may be, Non-executive Director of the Group, all Options granted to such Participant will, notwithstanding such cessation, continue to be exercisable within the relevant Option Period after such Participant ceases to be Director of the Group.

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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#### **10. Take-over and winding up**

10.1 Notwithstanding Rule 9 but subject to Rule 10.5, in the event of a take-over being made for the Shares, a Participant (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 9.1) shall be entitled to exercise in full or in part any Option held by him and as yet unexercised, in the period commencing on the date on which such offer is made or, if such offer is conditional, the date on which such offer becomes or is declared unconditional, as the case may be, and ending on the earlier of:-

- (a) the expiry, of six months thereafter, unless prior to the expiry of such six-month period, at the recommendation of the offeror and with the approvals of the Committee and the SGX-ST, such expiry date is extended to a later date (in either case, being a date failing not later than the expiry of the Option Period relating thereto); or
- (b) the date of expiry of the Option Period relating thereto,

whereupon the Option then remaining unexercised shall lapse and become null and void.

Provided that if during such period, the offeror becomes entitled or bound to exercise rights of compulsory acquisition under the provisions of the Act and, being entitled to do so, gives notice to the Participants that it intends to exercise such rights on a specified date, the Option shall remain exercisable by the Participant until the expiry of such specified date or the expiry of the Option Period relating thereto, whichever is earlier. Any Option not so exercised shall lapse provided that the rights of acquisition or obligations to acquire shall have been exercised or performed, as the case may be. If such rights or obligations have not been exercised or performed, the Option shall, notwithstanding Rule 9, remain exercisable until the expiry of the Option Period relating thereto.

10.2 If under the Act, the court sanctions a compromise or arrangement proposed for the purposes of, or in connection with, a scheme for the reconstruction of the Company or its amalgamation with another company or companies, each Participant (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 9.1) shall be entitled, notwithstanding Rule 9 but subject to Rule 10.5, to exercise any Option then held by him during the period commencing on the date upon which the compromise or arrangement is sanctioned by the court and ending either on the expiry of sixty (60) days thereafter or the date upon which the compromise or arrangement becomes effective, whichever is later (but not after the expiry of the Option Period relating thereto), whereupon the Option shall lapse and become null and void.

10.3 If an order is made for the winding-up of the Company on the basis of its insolvency, all Options, to the extent unexercised, shall lapse and become null and void.

10.4 In the event of a members' voluntary winding-up (other than for amalgamation or reconstruction), the Participants (including Participants holding Options which are then not exercisable pursuant to the provisions of Rule 9.1) shall be entitled, within thirty (30) days of the passing of the resolution of such winding-up (but not after the expiry of the Option Period relating thereto), to exercise any unexercised Option, after which such unexercised Option shall lapse and become null and void.

10.5 If in connection with the making of a general offer referred to in Rule 10.1 or the scheme referred to in Rule 10.2 or the winding-up referred to in Rule 10.4, arrangements are made (which are confirmed in writing by the Auditors, acting only as experts and not as arbitrators, to be fair and reasonable) for the compensation of Participants, whether by the continuation of their Options or the payment of cash or the grant of other options or otherwise, a Participant holding an Option, as yet not exercised, may not, at the discretion of the Committee, be permitted to exercise that Option as provided for in this Rule 10.

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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- 10.6 To the extent that an Option is not exercised within the periods referred to in this Rule 10, it shall lapse and become null and void.

#### **11. Exercise of Options**

- 11.1 An Option may be exercised, in whole or in part, by a Participant giving notice in writing to the Company in, or substantially in, the form set out in Schedule C, subject in each case to such modification as the Committee may from time to time determine. Such notice must be accompanied by a remittance for the Aggregate Subscription Cost in respect of the Shares for which that Option is exercised and any other documentation the Committee may require. An Option shall be deemed to be exercised upon receipt by the Company of the said notice, duly completed, the relevant documentation required by the Committee and the Aggregate Subscription Cost.
- 11.2 All payments made shall be made by cheque, cashiers' order, banker's draft or postal order made out in favour of the Company or such other mode of payment as may be acceptable to the Company.
- 11.3 Subject to such consents or other required action of any competent authority under any regulations or enactments for the time being in force as may be necessary and subject to the compliance with the terms of the Scheme and the Memorandum and Articles of Association of the Company, the Company shall, within ten (10) Market Days after the exercise of an Option, allot the relevant Shares and within five (5) Market Days from the date of the allotment of the relevant Shares, despatch to CDP the relevant share certificates by ordinary post or such other mode as the Committee may deem fit.
- 11.4 The Company shall, as soon as practicable after such allotment, apply to the SGX-ST (and any other stock exchange on which the Shares are quoted or listed) for permission to deal in and for quotation of such Shares.
- 11.5 Shares which are allotted on the exercise of an Option by a Participant shall be issued in the name of CDP to the credit of the securities account of that Participant maintained with CDP, the securities sub-account maintained with a Depository Agent or the CPF investment account maintained with a CPF agent bank.
- 11.6 Shares allotted and issued on exercise of an Option shall be subject to all the provisions of the Memorandum and Articles of Association of the Company, and shall rank in full for all entitlements, including dividends or other distributions declared or recommended in respect of the then existing Shares, the Record Date for which falls on or before the relevant exercise date of the Option, and shall in all other respects rank pari passu with other existing Shares then in issue. "Record Date" means the date fixed by the Company for the purposes of determining entitlements to dividends or other distributions to or rights of holders of Shares.
- 11.7 The Company shall keep available sufficient unissued Shares to satisfy the full exercise of all Options for the time being remaining capable of being exercised.

#### **12. Variation of Capital**

- 12.1 If a variation in the issued ordinary share capital of the Company (whether by way of a capitalisation of profits or reserves or rights issue, reduction, subdivision, consolidation or distribution) shall take place:-
- (a) the Subscription Price for the Shares, the nominal amount, class and/or number of Shares comprised in an Option to the extent unexercised; and/or

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## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

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- (b) the nominal amount, class and/or number of Shares over which Options may be granted under the Scheme,

shall be adjusted by the Committee to give each Participant the same proportion of the equity capital of the Company as that to which he was previously entitled and, in doing so, the Committee shall determine at its own discretion the manner in which such adjustment shall be made.

12.2 Unless the Committee considers an adjustment to be appropriate:-

- (a) the issue of securities as consideration for an acquisition or a private placement of securities; or
- (b) the cancellation of issued Shares purchased or acquired by the Company by way of a market purchase of such Shares undertaken by the Company on the SGX-ST during the period when a share purchase mandate granted by shareholders of the Company (including any renewal of such mandate) is in force,

shall not normally be regarded as a circumstance requiring adjustment.

12.3 Notwithstanding the provisions of Rule 12.1:-

- (a) no such adjustment shall be made if as a result, the Subscription Price shall fall below the nominal amount of a Share and if such adjustment would, but for this paragraph (a), result in the Subscription Price being less than the nominal amount of a Share, the Subscription Price payable shall be the nominal amount of a Share; and
- (b) any determination by the Committee as to whether to make any adjustment and if so, the manner in which such adjustment should be made, must (except in relation to a capitalisation issue) be confirmed in writing by the Auditors (acting only as experts and not as arbitrators) to be in their opinion, fair and reasonable.

12.4 Upon any adjustment required to be made pursuant to this Rule 12, the Company shall notify the Participant (or his duly appointed personal representatives where applicable) in writing and deliver to him (or his duly appointed personal representatives where applicable) a statement setting forth the Subscription Price thereafter in effect and the nominal value, class and/or number of Shares thereafter to be issued on the exercise of the Option. Any adjustment shall take effect upon such written notification being given.

### **13. Administration**

13.1 The Scheme shall be administered by the Committee in its absolute discretion with such powers and duties as are conferred on it by the Board, provided that no member of the Committee shall participate in any deliberation or decision in respect of Options granted or to be granted to him.

13.2 The Committee shall have the power, from time to time, to make and vary such regulations (not being inconsistent with the Scheme) for the implementation and administration of the Scheme as they think fit including, but not limited to, imposing restrictions on the number of Options that may be exercised within particular sections of the relevant Option Period.

13.3 Any decision of the Committee made pursuant to any provision of the Scheme (other than a matter to be certified by the Auditors) shall be final and binding (including any decisions pertaining to the quantum of discount applicable to an Incentive Option pursuant to Rule 8.2 or to disputes as to the interpretation of the Scheme or any rule, regulation, procedure thereunder or as to any rights under the Scheme).

## APPENDIX B

### TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME

#### 14. Notices and Annual Report

14.1 Any notice required to be given by a Participant to the Company shall be sent or made to the registered office of the Company or such other addresses as may be notified by the Company to him in writing.

14.2 Any notices or documents required to be given to a Participant or any correspondence to be made between the Company and the Participant shall be given or made by the Committee (or such person(s) as it may from time to time direct) on behalf of the Company and shall be delivered to him by hand or sent to him at his home address according to the records of the Company or the last known address of the Participant and if sent by post, shall be deemed to have been given on the day following the date of posting.

14.3 The Company shall disclose the following in its annual report:-

- (a) the names of the members of the Committee administering the scheme; and
- (b) the information required in the table below for the following participants:-
  - (i) Directors of the Company;
  - (ii) Participants who are Controlling Shareholders of the Company and their associates; and
  - (iii) Participants, other than those in (i) and (ii) above, who receive 5% or more of the total number of Options available under the Scheme.

Name of Participant	Options granted during financial year under review (including terms)	Aggregate Options granted since commencement of end of financial year under review	Aggregate Options exercised since commencement of Scheme to end of financial year under review	Aggregate Options outstanding as at scheme to end of financial Year under review

- (c) the number of Incentive Options during the financial year under review in the following bands:-

Discount to the Market Price %	Aggregate number of Incentive Options granted during the financial year under review	Proportion of Incentive Options To Market Price Options granted during the financial year under review
0 – 10		
11 - 20		

- (d) an appropriate negative statement if any of the above is not applicable.

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## **APPENDIX B**

### **TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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#### **15. Modifications to the Scheme**

- 15.1 Any or all the provisions of the Scheme may be modified and/or altered at any time and from time to time by resolution of the Committee, except that:-
- (a) no modification or alteration shall alter adversely the rights attaching to any Option granted prior to such modification or alteration except with the consent in writing of such number of Participants who, if they exercised their Options in full, would thereby become entitled to not less than three-quarters in nominal amount of all the Shares which would fall to be allotted upon exercise in full of all outstanding Options;
  - (b) the definitions of “Group”, “Group Employee”, “Associated Company”, “Associated Company Employee”, “Controlling Shareholder”, “Participant”, “Committee”, “Option Period” and “Subscription Price” and the provisions of Rules 4, 5, 6, 7, 8, 9, 10, 11.1, 11.6, 12, 13 and this Rule 15 shall not be altered to the advantage of Participants except with the prior approval of the Company’s shareholders in general meeting; and
  - (c) no modification or alteration shall be made without the prior approval of the SGX-ST, or any other stock exchange on which the Shares are quoted or listed, and such other regulatory authorities as may be necessary.
- 15.2 Notwithstanding anything to the contrary contained in Rule 15.1, the Committee may at any time by resolution (and without other formality, save for the prior approval of the SGX-ST) amend or alter the Scheme in any way to the extent necessary to cause the Scheme to comply with any statutory provision or the provision or the regulations of any regulatory or other relevant authority or body (including the SGX-ST).
- 15.3 Written notice of any modification or alteration made in accordance with this Rule 15 shall be given to all Participants.

#### **16. Terms of employment unaffected**

The terms of employment of a Participant (who is a Group Employee) shall not be affected by his participation in the Scheme, which shall neither form part of such terms nor entitle him to take into account such participation in calculating any compensation or damages on the termination of his employment for any reason.

#### **17. Duration of the Scheme**

- 17.1 The Scheme shall continue to be in force at the discretion of the Committee, subject to a maximum period of 10 (ten) years commencing on the Adoption Date, provided always that the Scheme may continue beyond the above stipulated period with the approval of the Company’s shareholders by ordinary resolution in general meeting and of any relevant authorities which may then be required.
- 17.2 The Scheme may be terminated at any time by the Committee or by resolution of the Company in general meeting subject to all relevant approvals which may be required and if the Scheme is so terminated, no further Options shall be offered by the Company hereunder.
- 17.3 The termination of the Scheme shall not affect Options which have been granted and accepted as provided in Rule 7.2, whether such Options have been exercised (whether fully or partially) or not.



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## **APPENDIX B**

### **TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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#### **18. Taxes**

All taxes (including income tax) arising from the exercise of any Option granted to any Participant under the Scheme shall be borne by that Participant.

#### **19. Costs and expenses**

19.1 Each Participant shall be responsible for all fees of CDP relating to or in connection with the issue and allotment of any Shares pursuant to the exercise of any Option in CDP's name, the deposit of share certificate(s) with CDP, the Participant's securities account with CDP, or the Participant's securities sub-account with a CDP Depository Agent or CPF investment account with a CPF agent bank (collectively, the "CDP Charges").

19.2 Save for the taxes referred to in Rule 18 and such other costs and expenses expressly provided in the Scheme to be payable by the Participants, all fees, costs and expenses incurred by the Company in relation to the Scheme including but not limited to the fees, costs and expenses relating to the allotment and issue of Shares pursuant to the exercise of any Option shall be borne by the Company.

#### **20. Disclaimer of liability**

Notwithstanding any provisions herein contained, the Board, the Committee and the Company shall not under any circumstances be held liable for any costs, losses, expenses and damages whatsoever and howsoever arising in any event, including but not limited to the Company's delay in issuing the Shares or applying for or procuring the listing of the Shares on the SGX-ST in accordance with Rule 11.4 (and any other stock exchange on which the Shares are quoted or listed).

#### **21. Disputes**

Any disputes or differences of any nature arising hereunder shall be referred to the Committee and its decision shall be final and binding in all respects.

#### **22. Condition of Option**

Every Option shall be subject to the condition that no Shares shall be issued pursuant to the exercise of an Option if such issue would be contrary to any law or enactment, or any rules or regulations of any legislative or non-legislative governing body for the time being in force in Singapore or any other relevant country having jurisdiction in relation to the issue of Shares hereto.

#### **23. Governing law**

The Scheme shall be governed by, and construed in accordance with, the laws of the Republic of Singapore. The Participants, by accepting Options in accordance with the Scheme, and the Company submit to the exclusive jurisdiction of the courts of the Republic of Singapore.

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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Schedule A

**ISDN HOLDINGS SHARE OPTION SCHEME**  
**LETTER OF OFFER**  
**(MARKET PRICE OPTION/INCENTIVE OPTION)**

Serial No: \_\_\_\_\_

[Date]

To [Name]  
[Designation]  
[Address]

**Private and Confidential**

Dear Sir/Madam,

We have the pleasure of informing you that you have been nominated by the Board of Directors of ISDN Holdings Limited (the "Company") to participate in the ISDN Holdings Share Option Scheme (the "Scheme"). Terms as defined in the Scheme shall have the same meaning when used in this letter.

Accordingly, in consideration of the payment of a sum of S\$1.00, an offer is hereby made to grant you a Market Price Option (the "Option"), to subscribe for and be allotted \_\_\_\_\_ Shares at the price of S\$\_\_\_\_\_ for each Share.

**\*If you accept the offer, the Option Period and number of Shares comprised in the Option which are exercisable will be as follows:**

Option Period	Option exercisable in respect of the number of Shares comprised in the Option
From _____ to _____	(i) up to _____%
From _____ to _____	(ii) up to _____% (including (1) above)
After _____	(iii) 100%

The Option is personal to you and shall not be transferred, charged, pledged, assigned or otherwise disposed of by you, in whole or in part, except with the prior approval of the Committee duly authorised and appointed to administer the Scheme.

The Option shall be subject to the rules of the Scheme, a copy of which is enclosed herewith.

If you wish to accept the offer, please sign and return the enclosed Acceptance Form with a sum of S\$1.00 not later than 5.00 p.m. on \_\_\_\_\_, failing which this offer will lapse.

Yours faithfully

Conditions (if any) to be attached to the exercise of the Option will be determined by the Committee at its absolute discretion.

Enc.

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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**Schedule B**

**ISDN HOLDINGS SHARE OPTION SCHEME  
ACCEPTANCE FORM  
(MARKET PRICE OPTION / INCENTIVE OPTION)**

Serial No: \_\_\_\_\_

To     The Committee  
       ISDN Holdings Share Option Scheme

Closing Date for Acceptance of offer	:	_____
Number of Shares Offered	:	_____
Subscription Price for each Share	:	S\$_____
Total Amount Payable (exclusive of the relevant CDP charges)	:	S\$_____

I have read your Letter of Offer dated \_\_\_\_\_ and agree to be bound by the terms of the Letter of Offer and the Scheme referred to therein. Terms defined in your Letter of Offer shall have the same meanings when used in this Acceptance Form.

I hereby accept the [Market Price/incentive] Option to subscribe for \_\_\_\_\_ Shares at S\$\_\_\_\_\_ for each Share and enclose cash for S\$1.00 in payment for the purchase of the Option.

I understand that I am not obliged to exercise the Option.

I also understand that I shall be responsible for all the fees of CDP relating to or in connection with the issue and allotment of any Shares in CDP's name, the deposit of share certificate(s) with CDP, my securities account with CDP, or my securities sub-account with a CDP Depository Agent (as the case may be) (collectively, the "CDP charges").

**I further acknowledge that you have not made any representation to induce me to accept the offer and that the terms of the Letter of Offer and this Acceptance Form constitute the entire agreement between us relating to the offer.**

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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**Please print in block letters**

Name in full : \_\_\_\_\_

Designation : \_\_\_\_\_

Address : \_\_\_\_\_

Nationality : \_\_\_\_\_

\*NRIC/Passport No. : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

\* Delete accordingly

**Notes:**

1. The Acceptance Form must be forwarded to the Company Secretary in an envelope marked "Private and Confidential"; and
2. The Participant shall be informed by the Company of the relevant CDP charges payable at the time of the exercise of an Option.

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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**Schedule C**

**ISDN HOLDINGS SHARE OPTION SCHEME**  
**FORM OF EXERCISE OF OPTION**  
**(MARKET PRICE OPTION/INCENTIVE OPTION)**

To     The Committee  
       ISDN Holdings Share Option Scheme

Total number of ordinary shares of S\$0.05 each ("the "Shares") offered at S\$_____ for each Share under the Scheme on _____ (Offering Date)	:	
Number of Shares previously allotted thereunder	:	
Outstanding balance of Shares to be allotted thereunder	:	
Number of Shares now to be subscribed	:	

- 1     Pursuant to your Letter of Offer dated \_\_\_\_\_ and my acceptance thereof, I hereby exercise the [Market Price/incentive] Option to subscribe for Shares in ISDN Holdings Limited (the "Company") at S\$\_\_\_\_\_ for each Share.
  
2.     I request the Company to allot and issue the said Shares referred to in paragraph 1 above in the name of The Central Depository (Pte) Limited (the "Depository") to the credit of my securities account with the Depository or my securities sub-account with a Depository Agent specified below and to deliver the certificate(s) relating thereto to the Depository. I further agree to bear such fees or other charges as may be imposed by the Depository and any stamp duty payable in respect thereof:-  
  
       \*(i)   Direct Securities Account No   : \_\_\_\_\_  
  
       \*(ii)   Securities Sub-Account No.   : \_\_\_\_\_  
  
               Name of Depository Agent     : \_\_\_\_\_
  
3.     I enclose a \*cheque/cashier's order/banker's draft/postal order no. \_\_\_\_\_ for S\$\_\_\_\_\_ in payment for the subscription of S\$\_\_\_\_\_ for the total number of the said Shares and the CDP charges of S\$\_\_\_\_\_.
  
4.     I agree to subscribe for the said Shares subject to the terms of the Letter of Offer, the ISDN Holdings Share Option Scheme and the Memorandum and Articles of Association of the Company.
  
5.     I declare that I am subscribing for the said Shares for myself and not as a nominee for any other person.

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**APPENDIX B**  
**TERMS AND CONDITIONS OF THE ISDN HOLDINGS SHARE OPTION SCHEME**

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**Please print in block letters**

Name in full : \_\_\_\_\_

Designation : \_\_\_\_\_

Address : \_\_\_\_\_

Nationality : \_\_\_\_\_

\*NRIC/Passport No. : \_\_\_\_\_

Signature : \_\_\_\_\_

Date : \_\_\_\_\_

\* Delete accordingly

**Note:**

- 1 . The form entitled "Form of Exercise of Option" must be forwarded to the Company Secretary in an envelope marked "Private and Confidential".

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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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#### 1. PRC legal system

The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations and directives. Decided court cases do not constitute binding precedents.

The National People's Congress of the PRC ("NPC") and the Standing Committee of the NPC are empowered by the PRC Constitution to exercise the legislative power of the state. The NPC has the power to amend the PRC Constitution and to enact and amend primary laws governing the state organs, civil and criminal matters. The Standing Committee of the NPC is empowered to interpret, enact and amend laws other than those required to be enacted by the NPC.

The State Council of the PRC is the highest organ of state administration and has the power to enact administrative rules and regulations. Ministries and commissions under the State Council of the PRC are also vested with the power to issue orders, directives and regulations within the jurisdiction of their respective departments. Administrative rules, regulations, directives and orders promulgated by the State Council and its ministries and commissions must not be in conflict with the PRC Constitution or the national laws and, in the event that any conflict arises, the Standing Committee of the NPC has the power to annul such administrative rules, regulations, directives and orders.

At the regional level, the people's congresses of provinces and municipalities and their standing committees may enact local rules and regulations and the people's government may promulgate administrative rules and directives applicable to their own administrative area. These local laws and regulations may not be in conflict with the PRC Constitution, any national laws or any administrative rules and regulations promulgated by the State Council.

Rules, regulations or directives may be enacted or issued at the provincial or municipal level or by the State Council of the PRC or its ministries and commissions in the first instance for experimental purposes. After sufficient experience has been gained, the State Council may submit legislative proposals to be considered by the NPC or the Standing Committee of the NPC for enactment at the national level.

The power to interpret laws is vested by the PRC Constitution in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (全国人民代表大会常务委员会关于加强法律解释工作的决议) passed on 10th June, 1981, the Supreme People's Court has the power to give general interpretation on application of laws in judicial proceedings apart from its power to issue specific interpretation in specific cases. The State Council and its ministries and commissions are also vested with the power to give interpretation of the rules and regulations which they promulgated. At the regional level, the power to give interpretation of regional laws is vested in the regional legislative and administration organs which promulgate such laws. All such interpretations carry legal effect.

#### 2. Judicial system

The People's Courts are the judicial organs of the PRC. Under the PRC Constitution (中华人民共和国宪法) and the Law of Organisation of the People's Courts of the People's Republic of China (中华人民共和国人民法院组织法), the People's Courts comprise the Supreme People's Court, the local people's courts, military courts and other special people's courts. The local people's courts are divided into three levels, namely, the basic level people's courts, intermediate people's courts and higher people's courts. The basic level people's courts are divided into civil, criminal and administrative divisions. The intermediate people's courts have divisions similar to those of the basic level people's courts and, where the circumstances so warrant, may have other special divisions (such as intellectual property divisions). The judicial functions of people's courts at lower levels are subject to supervision of people's courts at higher levels. The People's Procuratorates also have the right to exercise legal supervision over the proceedings of people's courts of the same and lower levels. The Supreme People's Court is the highest judicial organ of the PRC. It supervises the administration of justice by the people's courts of all levels.



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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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The people's courts adopt a two-tier final appeal system. A party may before the taking effect of a judgment or order appeal against the judgment or order of the first instance of a local people's court to the people's court at the next higher level. Judgments or orders of the second instance of the same level and at the next higher level are final and binding. Judgments or orders of the first instance of the Supreme People's Court are also final and binding. If, however, the Supreme People's Court or a people's court at a higher level finds an error in a final and binding judgment which has taken effect in a people's court at a lower level, or the presiding judge of a people's court finds an error in a final and binding judgment which has taken effect in the court over which he presides, a retrial of the case may be conducted according to the judicial supervision procedures.

The PRC civil procedures are governed by the Civil Procedure Law of the People's Republic of China (中华人民共和国民事诉讼法) (the "Civil Procedure Law") adopted on 9th April, 1991. The Civil Procedure Law contains regulations on the institution of a civil action, the jurisdiction of the people's courts, the procedures in conducting a civil action, trial procedures and procedures for the enforcement of a civil judgment or order. All parties to a civil action conducted within the territory of the PRC must comply with the Civil Procedure Law. A civil case is generally heard by a court located in the defendant's place of domicile. The jurisdiction may also be selected by express agreement by the parties to a contract provided that the jurisdiction of the people's court selected has some actual connection with the dispute, that is to say, the plaintiff or the defendant is located or domiciled, or the contract was executed or implemented in the jurisdiction selected, or the subject-matter of the proceedings is located in the jurisdiction selected. A foreign national or foreign enterprise is accorded the same litigation rights and obligations as a citizen or legal person of the PRC. If any party to a civil action refuses to comply with a judgment or order made by a people's court or an award made by an arbitration body in the PRC, the aggrieved party may apply to the people's court to enforce the judgment, order or award. There are time limits on the right to apply for such enforcement. Where at least one of the parties to the dispute is an individual, the time limit is one year. If both parties to the dispute are legal persons or other entities, the time limit is six months.

A party seeking to enforce a judgment or order of a people's court against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of such judgment or order. A foreign judgment or ruling may also be recognised and enforced according to PRC enforcement procedures by the people's courts in accordance with the principle of reciprocity or if there exists an international or bilateral treaty with or acceded to by the foreign country that provides for such recognition and enforcement, unless the people's court considers that the recognition or enforcement of the judgment or ruling will violate fundamental legal principles of the PRC or its sovereignty, security or social or public interest.

### **3. Arbitration and enforcement of arbitral awards**

The Arbitration Law of the PRC (中华人民共和国仲裁法) (the "Arbitration Law") was promulgated by the Standing Committee of the NPC on 31st August, 1994 and came into effect on 1st September, 1995. It is applicable to, among other matters, trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by an agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a people's court.

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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the people's court for enforcement. A people's court may refuse to enforce an arbitral award made by an arbitration committee if there were mistakes in the application of law, an absence of material evidence or irregularities over the arbitration proceedings, the jurisdiction or constitution of the arbitration committee, or the embezzlement or some other malpractice of the arbitrator.

A party seeking to enforce an arbitral award of a foreign affairs arbitration body of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

In respect of contractual and non-contractual commercial-law-related disputes which are recognised as such for the purposes of PRC law, the PRC has acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Award ("New York Convention") adopted on 10th June, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2nd December, 1986. The New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognised and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC at the time of the accession of the PRC that (1) the PRC would only recognise and enforce foreign arbitral awards on the principle of reciprocity and (2) the PRC would only apply the New York Convention in disputes considered under PRC laws to be arising from contractual and non-contractual mercantile legal relations.

#### **4. Foreign exchange control**

Major reforms have been introduced on the foreign exchange control system of the PRC since 1993.

The People's Bank of China, with the authorisation of the State Council, issued on 28th December, 1993 the Notice on the Further Reform of the Foreign Exchange Control System (中国人民银行关于贯彻《国务院关于进一步改革外汇管理体制的通知》有关操作问题的通知). On 29th January, 1996, the State Council promulgated the PRC Foreign Exchange Administration Regulations (中华人民共和国外汇管理条例) which took effect on 1st April, 1996. On 20th June, 1996, the PBOC issued the Administration Regulations on the Settlement, Sale and Payment of Foreign Exchange (结汇、售汇及付汇管理规定), which took effect on 1st July, 1996. On 25th October, 1998, the People's Bank of China and the State Administration for Foreign Exchange issued a Joint Announcement on Abolishment of Foreign Exchange Swap Business which stated that from 1st December, 1998, all foreign exchange transactions for FIEs may only be conducted through authorised banks.

These regulations contain detailed provisions regulating the holding, sale and purchase of foreign exchange by individuals, enterprises, economic bodies and social organisations in the PRC.

Under the new regulations, the previous dual exchange rate system for Renminbi was abolished and a unified floating exchange rate system based largely on supply and demand was introduced. The People's Bank of China, having regard to the trading prices between Renminbi and major foreign currencies on the inter-bank foreign exchange market, publishes on each bank business day the Renminbi exchange rates against major foreign currencies.

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## **APPENDIX C**

### **SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS**

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In general, all organisations and individuals within the PRC, including foreign investment enterprises, are required to remit their foreign exchange earnings to the PRC. In relation to PRC enterprises, their recurrent foreign exchange earnings are generally required to be sold to designated banks unless specifically approved otherwise. Foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises), on the other hand, are permitted to retain certain percentage of their recurrent foreign exchange earnings and the sums retained may be deposited into foreign exchange bank accounts maintained with designated banks. Capital foreign exchange earnings must be deposited into foreign exchange bank accounts maintained with designated banks and can generally be retained in such accounts.

At present, control on the purchase of foreign exchange is being relaxed. Enterprises which require foreign exchange for their current activities such as trading activities and payment of staff remuneration may purchase foreign exchange from designated banks, subject to the production of relevant supporting documents without the need for any prior approvals of the State Administration of Foreign Exchange.

In addition, where an enterprise requires any foreign exchange for the payment of dividends that are payable in foreign currencies under applicable regulations, such as the distribution of profits by a foreign investment enterprise to its foreign investment party, then, subject to the due payment of tax on such dividends the amount required may be withdrawn from funds in foreign exchange accounts maintained with designated banks, and where the amount of the funds in foreign exchange is insufficient, the enterprise may purchase additional foreign exchange from designated banks upon the presentation of the resolutions of the board of directors on the profit distribution plan of that enterprise and other requisite documents.

Despite the relaxation of foreign exchange control over current account transaction, the approval of and/or registration with the foreign exchange administration authority is still required for a PRC enterprise to borrow a loan in foreign currency or provide any foreign exchange guarantee or make any investment outside of the PRC or to enter into any other capital account transaction involving the purchase of foreign exchange.

When conducting actual foreign exchange transactions, the designated banks may, based on the exchange rate published by the People's Bank of China and subject to certain limits, freely determine the applicable exchange rate.

The China Foreign Exchange Trading Centre ("CFETC") was formally established and came into operation on 1st January, 1994. CFETC has set up a computerised network with sub-centres in several major cities, thereby forming an interbank market in which designated PRC banks can trade in foreign exchange and settle their foreign currency obligations. Prior to 1st December, 1998, enterprises with foreign investment may at their own choice enter into exchange transactions through Swap Centre or through designated PRC banks. From 1st December, 1998 onwards, exchange transactions will have to be conducted through designated banks. Swap Centres became restricted to conducting foreign exchange transactions between authorised banks and inter-bank lending between PRC banks.

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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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#### 5. Taxation

The applicable income tax laws, regulations, notices and decisions (collectively referred to as “Applicable Foreign Enterprises Tax Law”) related to foreign investment enterprises and their investors mainly include the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法) adopted by the NPC on 9th April, 1991 and the Implementing Rules of the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中华人民共和国外商投资企业和外国企业所得税法实施细则) promulgated by the State Council, which came into effect on 1st July, 1991

##### (a) *Income tax on foreign investment enterprises*

According to the Applicable Foreign Enterprises Tax Law, foreign investment enterprises (including sino-foreign equity joint ventures, sino-foreign co-operative joint ventures and wholly foreign owned enterprises established in the territory of the PRC) is required to pay a national income tax at a rate of 30% of their taxable income and a local income tax at a rate of three per cent. of their taxable income.

A foreign investment enterprise engaged in production having a period of operation of not less than ten years shall be exempted from income tax for the first two profit-making years and a 50% reduction in the income tax payable for the next three years. The income tax concession for foreign investment enterprises engaged in the exploitation of resources such as petroleum, natural gas, rare metals and precious metals are regulated separately by the State Council.

Foreign investment enterprises established in special economic zones, foreign enterprises having an establishment in special economic zones engaged in production or business operations and foreign investment enterprises engaged in production in economic and technological zones may pay income tax at a reduced rate of 15%. Foreign investment enterprises engaged in production established in coastal economic open zones or in the old urban districts of cities where the special economic zones or the economic and technological development zones are located may pay income taxes at a reduced rate of 24%. A reduced income tax rate of 15 per cent. may apply to an enterprise located in such regions which is engaged in energy, communication, harbour, wharf or other projects encouraged by the State.

Losses incurred in a tax year may be carried forward for not more than five years.

The people's governments of provinces, autonomous regions and municipalities directly under the central government may grant exemptions from or reduced local income tax for a foreign investment enterprise engaged in an industry or a project encouraged by the State.

##### (b) *Value added tax*

The Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例) promulgated by the State Council came into effect on 1st January, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Value Added Tax (中华人民共和国增值税暂行条例实施细则), value added tax is imposed on goods sold in or imported into the PRC and on processing, repair and replacement services provided within the PRC.

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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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Value added tax payable in the PRC is charged on an aggregated basis at a rate of 13 or 17% (depending on the type of goods involved) on the full price collected for the goods sold or, in the case of taxable services provided, at a rate of 17% on the charges for the taxable services provided but excluding, in respect of both goods and services, any amount paid in respect of value added tax included in the price or charges, and less any deductible value added tax already paid by the taxpayer on purchases of goods and services in the same financial year.

(c) **Business tax**

The Provisional Regulations of the People's Republic of China Concerning Business Tax (中华人民共和国营业税暂行条例) promulgated by the State Council came into effect on 1st January, 1994. Under these regulations and the Implementing Rules of the Provisional Regulations of the People's Republic of China Concerning Business Tax (中华人民共和国营业税暂行条例实施细则), business that provide services (except entertainment business), assign intangible assets or sell immovable property became liable to business tax at a rate ranging from three to five per cent. of the charges of the services provided, intangible assets assigned or immovable property sold, as the case may be.

(d) **Tax on dividends from PRC enterprise with foreign investment**

According to the Applicable Foreign Enterprises Tax Law, income such as dividends and profits distribution from the PRC derived from a foreign enterprise which has no establishment in the PRC is subject to a 20% withholding tax, subject to reduction as provided by any applicable double taxation treaty, unless the relevant income is specifically exempted from tax under the Applicable Foreign Enterprises Tax Law. The profit derived by a foreign investor from a PRC enterprise with foreign investment is exempted from PRC tax according to the Applicable Foreign Enterprises Tax Law.

#### **6. Sino- foreign equity joint venture**

Sino-foreign equity joint ventures are governed by the Law of the People's Republic of China Concerning Sino-foreign Equity Joint Venture (中华人民共和国中外合资经营企业法), which was adopted by the NPC on July 1, 1979 and was subsequently amended on April 4, 1990, March 15, 2001, and its Implementation Regulations promulgated on 20 September 1983 (amended on 15 January, 1986, 21 December, 1987 and 22 July, 2001) (together the "Sino-foreign Equity Law").

(a) *Procedures for establishment of a Sino- foreign equity joint venture*

The establishment of a Sino- foreign equity joint venture will have to be approved by Ministry of Commerce (or its delegated authorities) (hereinafter referred to as "MOFCOM"). A Sino-foreign equity joint venture must also obtain a business licence from SAIC before it can commence business.

(b) *Nature*

A Sino-foreign equity joint venture is a limited liability company under the Sino-foreign Equity Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the Chinese and foreign investors. The liability of the foreign investor(s) is limited to the amount of registered capital subscribed. Chinese and foreign investor may make their contributions by instalments and the registered capital must be contributed within the period as stated in the Sino-foreign equity joint venture contract.

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## APPENDIX C

### SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS

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(c) *Profit distribution*

The Sino-foreign Equity Law provides that after payment of taxes, a Sino-foreign equity joint venture must make contributions to a reserve fund, an employee bonus and welfare fund and a development fund ("Three Funds"). The allocation ratio for the Three Funds may be determined by the Sino-foreign equity joint venture. The reserve fund may be used by a Sino-foreign equity joint venture to make up its losses and with the consent of the examination and approval authority, can also be used to expand its production operations and to increase its capital. The employee bonus and welfare fund can only be used for the collective benefit and facilities of the employees of the Sino-foreign equity joint venture. The development fund is non-distributable and its usage is similar to that of the reserve fund. A Sino-foreign equity joint venture is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

#### 7. **Wholly foreign-owned enterprise**

Wholly foreign-owned enterprises are governed by the Law of the people's Republic of China Concerning Wholly Foreign Owned Enterprises (中华人民共和国外资企业法), which was promulgated on 12 April 1986 and was subsequently amended on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and was subsequently amended on 12 April 2001 (together the "Wholly Foreign Owned Enterprises Law").

(a) *Procedures for establishment of a wholly foreign-owned enterprise*

The establishment of a wholly foreign-owned enterprise will have to be approved by MOFCOM (or its delegated authorities). If two or more foreign investors jointly apply for the establishment of a wholly foreign-owned enterprise, a copy of the contract between the parties must also be submitted to MOFCOM (or its delegated authorities) for its record. A wholly foreign-owned enterprise must also obtain a business licence from SAIC before it can commence business.

(b) *Nature*

A wholly foreign-owned enterprise is a limited liability company under the Wholly Foreign Owned Enterprises Law. It is a legal person which may independently assume civil obligations, enjoy civil rights and has the right to own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital contributed. A foreign investor may make its contributions by instalments and the registered capital must be contributed within the period as approved by MOFCOM (or its delegated authorities) in accordance with relevant regulations.

(c) *Profit distribution*

The Wholly Foreign Owned Enterprises Law provides that after payment of taxes, a wholly foreign-owned enterprise must make contributions to a reserve fund and an employee bonus and welfare fund. The allocation ratio for the employee bonus and welfare fund may be determined by the enterprise. However, at least 10 per cent of the after tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of an enterprise's registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.



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## **APPENDIX C**

### **SUMMARY OF RELEVANT PRC LAWS AND REGULATIONS**

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#### **8. Environmental Protection Regulations**

In accordance with the Environmental Protection Law of the PRC adopted by the Standing Committee of the NPC on 26th December, 1989, the administration supervisory department of environmental protection of the State Council sets the national guidelines for the discharge of pollutants. The provincial and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the Administration Supervisory Department of Environmental Protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have caused severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit.

If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalised. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalised or have their business licences terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the any losses or damages suffered as a result of such environmental pollution.

In the past 3 financial years and up to the Latest Practicable Date our Company has not received any warning from the Administration Supervisory Department of Environmental Protection or such other relevant authority for any breach of any environmental laws and regulations in the PRC.

#### **9. Wai Gao Qiao Free Trade Zone ("WFTZ")**

In accordance with the Notice of Issue Regarding the Foreign Economics and Trade Policy of Free Trade Zone issued by the former Ministry of Foreign Trade and Economy Cooperation (the "MOFTEC", as succeeded by MOFCOM) dated 17 July 1997, the scope of activity of an enterprise in WFTZ is limited to trade with foreign entities, and without the help of an import and export agency, it is generally not permitted to sell and purchase goods outside of WFTZ within the PRC.

According to China's WTO commitments (under which FIEs were to be granted the right to trade in most goods throughout the customs territory of the PRC at the end of 2004) and with the revision of the PRC Foreign Trade Law (effective as of 1 July 2004), FIEs in WFTZ may include, subject to the approval of WFTZ Administration Commission, import and export of goods and technology (excluding distribution business) within their business scope, which will allow such FIEs to procure any goods from China (other than prohibited commodities) without relying on an import and export agency. However, they still are not permitted to carry out an import business with all domestic entities in their own right unless they are granted such a right by MOFCOM.



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**ISDN HOLDINGS LIMITED**  
**(Registration No: 200416788Z)**

**COMPILATION REPORT OF THE**  
**REPORTING AUDITORS ON PROFORMA**  
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15 November 2005

The Board of Directors  
ISDN Holdings Limited  
10 Kaki Bukit Road 1,  
#01-30 KB Industrial Building  
Singapore 416175

Dear Sirs

**COMPILATION REPORT OF THE REPORTING AUDITORS ON PROFORMA  
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This compilation report has been prepared for inclusion in the Prospectus dated 15 November 2005 (the "Prospectus") in connection with the invitation in respect of 39,700,000 ordinary shares of S\$0.05 each comprising 27,000,000 New Shares and 12,700,000 Vendor Shares in the capital of ISDN Holdings Limited (the "Company") as follows:

- a) 1,500,000 Offer Shares at S\$0.29 each by way of public offer; and
- b) 38,200,000 Placement Shares by way of placement, comprising:
  - (i) 34,130,000 Placement Shares at S\$0.29 for each Placement Share;
  - (ii) 3,970,000 Reserved Shares at S\$0.29 for each Reserved Share reserved for employees, customers, suppliers and persons who have contributed to the success of the Company and its subsidiaries; and
  - (iii) 100,000 Internet Placement Shares of S\$0.29 for each Internet Placement Share reserved for applications made through the IPO website [www.ePublicOffer.com](http://www.ePublicOffer.com),

payable in full on application.

We report on the Proforma Group financial information set out in pages D-4 and D-43 which has been prepared for illustrative purposes only and based on certain assumptions after making certain adjustments to show what:

- a) the financial results of ISDN Holdings Limited and its subsidiaries (the "Proforma Group") for the financial years ended 31 December 2002, 2003 and 2004 ("FY2002 to FY2004") would have been if the group structure as at the date of registration of the Prospectus had been in place throughout the years under review, or since the respective dates of incorporation of the companies in the Proforma Group whichever is later;
- b) the financial position of the Proforma Group as at 31 December 2004 would have been if the group structure as of the date of registration of the Prospectus had been in place on that date; and
- c) the changes in equity and cash flow for the financial year ended 31 December 2004 would have been if the group structure as of the date of registration of the Prospectus had been in place since the beginning of the year reported on.

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The Proforma Group financial information, because of their nature, may not give a true picture of the Proforma Group's actual financial position, financial results, changes in equity and cash flow.

The Proforma Group financial information is the responsibility of the directors of the Company. Our responsibility is to express an opinion on the Proforma Group financial information based on our work.

We carried out procedures in accordance with Singapore Statement of Auditing Practice 24: "*Auditors and Public Offering Documents*". Our work, which involved no independent examination of the underlying financial statements, consisted primarily of comparing the Proforma Group financial information to the financial statements (or where information is not available, to the accounting records) of the Company and the companies in the Proforma Group where applicable, considering the evidence supporting the adjustments and discussing the Proforma Group financial information with the directors of the Company.

In our opinion:

- a) the Proforma Group financial information of the Group for FY2002 to FY2004 have been properly prepared:
  - (i) in a manner consistent with both the format of the financial statements and the accounting policies of the Company which are prepared in accordance with Singapore Financial Reporting Standards ("SFRS");
  - (ii) on the basis stated in Note 2 of Section E; and
- b) each material adjustment made to the information used in the preparation of the Proforma Group financial information is appropriate for the purpose of preparing proforma financial information.

Yours faithfully

**DELOITTE & TOUCHE**  
Certified Public Accountants  
Singapore

Ernest Kan Yaw Kiong  
Partner

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**A. PROFORMA GROUP BALANCE SHEET**

	<u>Note</u>	<u>As at 31 December 2004</u> \$'000
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and bank balances		5,725
Trade receivables	6	8,239
Other receivables and prepayments	7	615
Inventories	8	5,606
Total current assets		<u>20,185</u>
<b>Non-current assets:</b>		
Investment in associates	9	1,080
Properties, plant and equipment	10	4,094
Investment properties	11	667
Total non-current assets		<u>5,841</u>
<b>Total assets</b>		<u><u>26,026</u></u>
<b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b>		
<b>Current liabilities:</b>		
Bank loans	12	1,124
Trust receipts	13	787
Trade payables	14	4,858
Other payables	15	1,639
Income tax payable		1,825
Current portion of finance leases	16	35
Total current liabilities		<u>10,268</u>
<b>Non-current liabilities:</b>		
Long-term loans	12	1,237
Finance lease	16	49
Deferred tax liabilities	17	22
Total non-current liabilities		<u>1,308</u>
<b>Minority interest</b>		<u>213</u>
<b>Proforma shareholders' equity</b>		<u>14,237</u>
<b>Total liabilities and proforma shareholders' equity</b>		<u><u>26,026</u></u>

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**B. PROFORMA GROUP PROFIT AND LOSS STATEMENTS**

		← Year ended 31 December →		
	Note	2002	2003	2004
		\$'000	\$'000	\$'000
<b>Revenue</b>	18	21,298	39,003	53,458
<b>Cost of sales</b>		(14,848)	(28,729)	(38,624)
<b>Gross profit</b>		6,450	10,274	14,834
Other operating income	19	422	354	512
Distribution costs		(818)	(1,110)	(1,286)
Administrative expenses		(3,967)	(5,394)	(6,042)
Other operating expenses	20	(343)	(470)	(1,012)
<b>Profit from operations</b>		1,744	3,654	7,006
Finance costs	21	(78)	(92)	(93)
Share of results of associates		113	181	224
<b>Profit before income tax</b>	22	1,779	3,743	7,137
Income tax expense	23	(260)	(687)	(1,267)
<b>Profit after income tax</b>		1,519	3,056	5,870
Minority interests		(6)	42	(89)
<b>Net profit for the year</b>		1,513	3,098	5,781
Earnings per share (cents)*		1.15	2.35	4.39

\* Earnings per share for the period under review has been computed based on pre-invitation share capital of 131,798,700 ordinary shares of \$0.05 each.

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**C. PROFORMA GROUP STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

	<b>\$'000</b>
Balance at 1 January 2004	8,454
Issue of shares in the paid-up capital of companies of the Proforma Group	110
Translation reserve	(108)
Net profit for the year	5,781
Balance at 31 December 2004	<u>14,237</u>

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**D. PROFORMA GROUP CASH FLOW STATEMENT**

	Year ended 31 December 2004
	\$'000
<b>Cash flows from operating activities:</b>	
Profit before income tax	7,137
Adjustments for:	
Depreciation expense of properties, plant and equipment	299
Depreciation expense of investment properties	17
Interest expense	93
Interest income	(3)
Share of results of associates	(224)
Operating profit before working capital changes	7,319
Trade receivables	4,568
Other receivables and prepayments	(203)
Inventories	(1,535)
Trade payables	(2,501)
Other payables	(4,963)
Cash generated from operations	2,685
Dividend received from associates (Note 9)	117
Interest received	3
Interest paid	(93)
Income tax paid	(317)
Net cash from operating activities	2,395
<b>Cash flows used in investing activity:</b>	
Purchase of properties, plant and equipment (Note A)	(204)
Net cash used in investing activity	(204)
<b>Cash flows from financing activities:</b>	
Investment in subsidiaries by minority shareholders	49
Proceeds from issue of paid-up capital of companies of the Proforma Group	110
Proceeds from bank loans	652
Proceeds from trust receipts	787
Repayment of finance leases	(29)
Net cash from financing activities	1,569
<b>Net effect of exchange rate changes in consolidating subsidiaries</b>	(94)
Net increase in cash	3,666
Cash at beginning of year	2,059
<b>Cash at end of year</b>	5,725



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**Note to Proforma Group cash flow statement**

- A During the financial year, the Proforma Group acquired properties, plant and equipment with an aggregate cost of \$224,000 which were funded as follows:

	Year ended 31 December 2004
	<u>\$'000</u>
Cash	204
Finance leases	20
	<u>224</u>

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION**

**1. General**

The Company was incorporated as “Automation Control Group Pte Ltd” in Singapore (Registration No. 200416788Z) on 28 December 2004 as a private limited company under the Companies Act. Its registered office and principal place of business is at 10 Kaki Bukit Road 1, #01-30 KB Industrial Building, Singapore 416175. The financial information set out in this report is expressed in Singapore dollars which is the measurement currency of the company.

The principal activity of the Company is that of an investment holding company.

The principal activities of its subsidiaries are described in Note 2.1 to the Proforma Group financial information.

**2. Basis of Preparation of Proforma Financial Information**

The Proforma Group financial information for the financial years ended 31 December 2002, 2003 and 2004 have been prepared for inclusion in the Prospectus in connection with the invitation as described in the compilation report.

**2.1. Restructuring Exercise**

Automation Control Group Pte Ltd was incorporated as a result of the Restructuring Exercise undertaken for the purpose of the Company’s listing on the Singapore Exchange Securities Trading Limited. On 6 May 2005, the company changed its name from Automation Control Group Pte Ltd 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 Restructuring Exercise involved the following:

(a) Acquisitions by Servo Suzhou 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 the 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 the 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 the 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 the transfer, Delta Automation became a wholly owned subsidiary of SD Suzhou.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.1. Restructuring Exercise – continued**

(b) 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 (“PMC”) 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 PMC as at 31 December 2004. Pursuant to this transfer, PMC became a wholly owned subsidiary of MCG. Thang Yee Chin is the spouse of the Managing Director and President, Teo Cher Koon and Thang Yee Lee is the sister of Thang Yee Chin.
- (iii) On 27 September 2005, Teo Cher Koon and 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 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 asset of SD Malaysia as at 31 December 2004. Pursuant to this transfer, SD Malaysia became a 75% owned subsidiary of MCG. The remaining shareholders of SD Malaysia are not related to the Directors, Executive Officers or Substantial Shareholder and their associates.
- (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.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.1. Restructuring Exercise – continued**

- (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 SD Thailand to MCG (27,596 ordinary shares), Servo Dynamics (1 ordinary share), Portwell (1 ordinary share), PMC (1 ordinary share) and 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 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 Proforma 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%), PMC (0.0022%) and Leaptron (0.0022%).

(c) 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.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.1. Restructuring Exercise – continued**

- (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 \$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 \$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 \$7.09 million to its then shareholders. Pursuant to this transfer, Servo Dynamics became a wholly owned subsidiary of the Company. Teo York Eng is the mother of Teo Cher Koon.
- (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, MCG 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, Wong Kwok Whye Peter renounced their entire shareholding in the Company to Assestraie Holdings Limited (a company incorporated in the British Virgin Islands which is wholly owned by Teo Cher Koon).

Upon completion of the Restructuring Exercise, the Company has the following subsidiaries:

<u>Name of subsidiaries</u>	<u>Effective equity interest held by the Company %</u>	<u>Country of incorporation/ operations</u>	<u>Date of incorporation</u>	<u>Principal activities</u>
<b><u>Held by the Company</u></b>				
Motion Control Group Pte Ltd ("MCG")	100	Singapore	21 December 2004	Investment holding
Servo Dynamics Pte Ltd ("Servo Dynamics")	100	Singapore	2 October 1986	Importing, exporting, distribution, servicing and repairing of motion control and industrial computing products, electric motors and accessories; and providing integrated solutions
Portwell Singapore Pte Ltd ("Portwell")	100	Singapore	17 April 1997	Integrated solutions provider of industrial software and hardware

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.1. Restructuring Exercise – continued**

<u>Name of subsidiaries</u>	<u>Effective equity interest held by the Company %</u>	<u>Country of incorporation/ operations</u>	<u>Date of incorporation</u>	<u>Principal activities</u>
<b><u>Held by the Company</u></b>				
Leaptron Engineering Pte Ltd (“Leaptron”)	100	Singapore	13 August 2002	Importing, exporting, servicing and trading of automation products, providing integrated solutions
<b><u>Held by Motion Control Group Pte Ltd</u></b>				
Precision Motion Control Pte Ltd (“PMC”)	100	Singapore	1 July 1996	Importing, exporting, distribution, servicing and repairing of motion control products, electric motor and accessories; and providing integrated solutions
Servo Suzhou Co., Ltd. (“SD Suzhou”)	100	People’s Republic of China	24 August 2001	Manufacturing and selling motion control products and providing system integrated solutions.
Servo Dynamics (Thailand) Co., Ltd (“SD Thailand”)	59.7	Thailand	9 November 1995	To carry on the business of factory establishment for producing and trading electric appliances, including researching and producing the electric instruments of original machine
Servo Engineering Sdn Bhd (“SD Malaysia”)	75	Malaysia	17 December 1990	To engage in the importing, exporting, purchasing, selling, distributing, servicing, repairing and otherwise dealing in automation products, amplifiers, gear box, electrics motors and equipment and any parts or accessories used in connection therewith
Servo Dynamics (H.K.) Limited (“SD Hong Kong”)	100	Hong Kong	24 October 1995	Trading in electronics products

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.1. Restructuring Exercise – continued**

<u>Name of subsidiaries</u>	<u>Effective equity interest held by the Company %</u>	<u>Country of incorporation/ operations</u>	<u>Date of incorporation</u>	<u>Principal activities</u>
<b><u>Held by Servo Suzhou Co., Ltd.</u></b>				
Chongqing Junzhi Automatic Instrument Control Co., Ltd. ("SD Chongqing")	100 <sup>(1)</sup>	People's Republic of China	18 June 2003	Developing and selling motion control products and providing system integrated solutions
Beijing Junyizhicheng Technology Developing Co., Ltd. ("SD Beijing")	100 <sup>(2)</sup>	People's Republic of China	30 May 2002	Manufacturing and selling precise motion control products and providing system integrated solutions
Shenzhen Servo Dynamics Co., Ltd. ("SD Shenzhen")	100 <sup>(3)</sup>	People's Republic of China	28 May 2002	Supplying precise motion control products and providing system integrated solutions
Shanghai Delta Automation International Trade Co., Ltd. ("Delta Automation")	100 <sup>(4)</sup>	People's Republic of China	9 November 2004	International trade and entrepot trade
Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd. <sup>(5)</sup> ("Beijing AMC")	50	People's Republic of China	7 January 2005	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) SD Suzhou and SD Beijing holds 90% and 10% of the registered capital of SD Chongqing.

(2) SD Suzhou and SD Shenzhen holds 65% and 35% of the registered capital of SD Beijing.

(3) SD Suzhou and SD Beijing holds 65% and 35% of the registered capital of SD Shenzhen.

(4) SD Suzhou and SD Shenzhen holds 90% and 10% of the registered capital of Delta Automation.

(5) On 5 December 2004, SD Suzhou and Beijing Beicheng New Controlled Automation Technology Co., Ltd. ("Beicheng") entered into agreement to establish a company, Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd. ("Beijing AMC") with registered capital of \$99,050 (RMB 500,000). On 30 December 2004, SD Suzhou invested \$49,525 (RMB 250,000) in Beijing AMC, representing 50% of its registered capital. On 7 January 2005, Beijing AMC was formally incorporated. On 8 February 2005, Beicheng, having interests in 50% of the registered capital executed a shareholders' agreement whereby they renounced their majority voting rights in Beijing AMC. Pursuant to renouncement, Beijing AMC became a subsidiary of SD Suzhou.



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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.2. Basis of Preparation**

- (a) The Proforma Group financial information for financial years ended 31 December 2002, 2003 and 2004 are prepared for illustrative purposes only. These are prepared in accordance with the accounting policies of the Proforma Group as set out in Note 3 to the Proforma Group financial information and based on certain assumptions and after making certain adjustments to show what:
- (i) the financial results of the Proforma Group for the financial years ended 31 December 2002, 2003 and 2004 would have been if the group structure as of the date of registration of the Prospectus had been in place throughout the years under review, or since the respective dates of incorporation of the companies in the Proforma Group, whichever is later;
  - (ii) the financial position of the Proforma Group as at 31 December 2004 would have been if the group structure as of the date of registration of the Prospectus has been in place on that date; and
  - (iii) the changes in equity and cash flow for the financial year ended 31 December 2004 would have been if the group structure as of the date of registration of the Prospectus had been in place since the beginning of the year reported on.

The objective of the proforma financial information of the Proforma Group is to show what the historical information might have been had the Proforma Group existed at an earlier date and had the above Proforma Group structure been in existence throughout the period or since the respective dates of incorporation of the companies in the Proforma Group, if later. However, the Proforma Group financial information is not necessarily indicative of the results of the operations or the related effects on the financial positions that would have been attained had the Proforma Group actually existed earlier.

- (b) The Proforma Group financial information have been compiled based on:

Companies within the Proforma Group incorporated in the Republic of Singapore:

- (i) the unaudited financial statements of the Company and Motion Control Group Pte Ltd (“MCG”) since the Company and MCG were not active as they were only incorporated on 28 December 2004 and 21 December 2004 respectively;
- (ii) the audited financial statements of Servo Dynamics Pte Ltd (“Servo Dynamics”) for the financial years ended 31 December 2002, 2003 and 2004.

The audited financial statements of Servo Dynamics for financial years ended 31 December 2002, 2003 and 2004 were audited by Deloitte & Touche Singapore (“Deloitte Singapore”) whose partners are members of the Institute of Certified Public Accountants of Singapore.

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**APPENDIX D**  
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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.2. Basis of Preparation – continued**

- (iii) the audited financial statements of Portwell Singapore Pte Ltd (“Portwell”) for the financial years ended 30 April 2002, 2003 and 2004 and eight months for the period from 1 May 2004 to 31 December 2004. In 2004, Portwell’s financial year-end was changed from 30 April to 31 December to align it to its Proforma Group’s financial year-end;

The results of Portwell for financial years ended 30 April 2002 and 2003 are not considered material to the Proforma Group.

The audited financial statements of Portwell for financial year ended 30 April 2004 and eight months for the period from 1 May 2004 to 31 December 2004 were audited by Deloitte Singapore.

- (iv) the audited financial statements of Leaptron Engineering Pte Ltd (“Leaptron”) for fourteen months for the period from 13 August 2002 (date of incorporation) to 30 September 2003 and fifteen months for the period from 1 October 2003 to 31 December 2004. In 2004, Leaptron’s financial year-end was changed from 30 September to 31 December to align it to its Proforma Group’s financial year-end;

The results of Leaptron for the financial period from 13 August 2002 (date of incorporation) to 30 September 2003 are not considered material to the Proforma Group.

The audited financial statements of Leaptron for fifteen months for the period from 1 October 2003 to 31 December 2004 were audited by Deloitte Singapore.

- (v) the audited financial statements of Precision Motion Control Pte Ltd (“PMC”) for the financial years ended 30 June 2002, 2003 and 2004 and six months for the period from 1 July 2004 to 31 December 2004. In 2004, PMC’s financial year-end was changed from 30 June to 31 December to align it to its Proforma Group’s financial year-end;

The results of PMC for the financial years ended 30 June 2002 are not considered material to the Proforma Group.

The audited financial statements of PMC for the financial years ended 30 June 2003 and 2004 and six months for the period from 1 July 2004 to 31 December 2004 were audited by Deloitte Singapore.

The abovementioned audited financial statements of Servo Dynamics, Portwell, Leaptron and PMC audited by Deloitte Singapore have been prepared under Singapore Financial Reporting Standards (“SFRS”).

Companies within the Proforma Group incorporated in the People’s Republic of China (“PRC”):

- (i) the audited financial statements of Servo Suzhou Co., Ltd. (“SD Suzhou”) for the financial years ended 31 December 2002, 2003 and 2004;
- (ii) the audited financial statements of Chongqing Junzhi Automatic Instrument Control Co., Ltd. (“SD Chongqing”) for the period from 18 June 2003 (date of incorporation) to 31 December 2003 and for the financial year ended 31 December 2004;

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## APPENDIX D

### COMPILATION REPORT OF THE REPORTING AUDITORS ON PROFORMA GROUP FINANCIAL INFORMATION

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#### E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED

##### 2.2. Basis of Preparation – continued

- (iii) the audited financial statements of Beijing Junyizhicheng Technology Developing Co., Ltd. (“SD Beijing”) for the period from 30 May 2002 (date of incorporation) to 31 December 2002 and for the financial years ended 31 December 2003 and 2004;
- (vi) the audited financial statements of Shenzhen Servo Dynamics Co., Ltd. (“SD Shenzhen”) for the period from 28 May 2002 (date of incorporation) to 31 December 2002 and for the financial years ended 31 December 2003 and 2004; and
- (v) the unaudited financial statements of Shanghai Delta Automation International Trade Co., Ltd. (“Delta Automation”) and Beijing Bei Cheng Xin Kong Ci Fu Technology Co., Ltd. (“Beijing AMC”) since Delta Automation and Beijing AMC were not active as they were only incorporated on 9 November 2004 and 7 January 2005 respectively.

The financial statements of SD Suzhou, SD Chongqing, SD Beijing and SD Shenzhen for financial years/period ended 31 December 2002, 2003 were audited by The Tongxin Certified Public Accountants, Chongqing Yongxin Certified Public Accountants Co., Ltd, Justice United Certified Public Accountants, Suzhou Chung Hwei Public Accountants Co., Ltd. and Shenzhen Forever Certified Public Accountants, People’s Republic of China, respectively.

The financial statements of SD Suzhou, SD Chongqing, SD Beijing and SD Shenzhen for financial year ended 31 December 2004 have been prepared under International Financial Reporting Standards (“IFRS”) and audited by Deloitte Touche Tohmatsu CPA Ltd, People’s Republic of China.

Deloitte Touche Tohmatsu CPA Ltd, a member of the Chinese Institute of Certified Public Accountants, is located at 30/F, Bund Centre, 222 Yan Ann Road East, Shanghai 200002, People’s Republic of China.

##### Company within the Proforma Group incorporated in Thailand:

- (i) the audited financial statements of Servo Dynamics (Thailand) Co., Ltd (“SD Thailand”) for the financial years ended 31 December 2002, 2003 and 2004 prepared under generally accepted accounting principles in Thailand. The results of SD Thailand for FY2002 to FY2004 are not considered material to the Proforma Group;

The audited financial statements of SD Thailand for financial year ended 31 December 2004 were audited by Deloitte Touche Tohmatsu Jaiyos Co. Ltd. (a member of the Institute of Certified Accountants and Auditors of Thailand) located at Rajanakarn Building, 25<sup>th</sup> Floor, 183 South Sathorn Road, Yannawa, Sathorn, Bangkok 10120, Thailand.

##### Company within the Proforma Group incorporated in Malaysia:

- (i) the audited financial statements of Servo Engineering Sdn Bhd (“SD Malaysia”) for the financial years ended 31 December 2002, 2003 and 2004 prepared under generally accepted accounting principles in Malaysia. The results of SD Malaysia for FY2002 to FY2004 are not considered material to the Proforma Group;

The audited financial statements of SD Malaysia for financial year ended 31 December 2004 were audited by Deloitte & Touche, Malaysia (a member of the Malaysian Institute of Accountants) located at Level 19, Uptown 1, 1 Jalan SS 21/58 Damansara Uptown, 47400 Petaling Jaya, Malaysia.

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**COMPILATION REPORT OF THE REPORTING AUDITORS ON**  
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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**2.2. Basis of Preparation** – continued

Company within the Proforma Group incorporated in Hong Kong:

- (i) the audited financial statements of Servo Dynamics (H.K.) Limited (“SD Hong Kong”) for the financial years ended 31 March 2002, 2003 and 2004 prepared under generally accepted accounting principles in Hong Kong and the audited financial statements of SD Hong Kong for the calendar year from 1 January 2004 to 31 December 2004 prepared under IFRS;

The audited financial statements of SD Hong Kong for calendar year from 1 January 2004 to 31 December 2004 were audited by Deloitte Touche Tohmatsu, Hong Kong (a member of the Hong Kong Institute of the Certified Public Accountants) located at Wing On Centre, 26<sup>th</sup> Floor, 111 Connaught Road, Central, Hong Kong.

- (c) For the purpose of the preparation of the Proforma Group financial information for FY2002 to FY2004, respective audited financial statements together with the underlying records have been used.
- (d) The auditors’ reports on the audited financial statements of the material subsidiaries described in paragraph (b) above were not subject to any material qualification.

**3. Summary of Significant Accounting Policies**

The accounting policies which have been consistently adopted in preparing the proforma financial information, are set out as follows:

- (a) **BASIS OF ACCOUNTING** – The Proforma Group financial information are prepared in accordance with the historical cost convention and are properly drawn up in accordance with Singapore Financial Reporting Standards (“SFRS”).
- (b) **BASIS OF PROFORMA CONSOLIDATION** – The Proforma Group financial information for the financial years ended 31 December 2002, 2003 and 2004 are prepared for illustrative purposes only. These are prepared on the basis detailed in Note 2 above.

The Proforma Group financial information incorporates the financial statements of the Company and enterprise controlled by the Company (its subsidiaries) made up to the end of financial year. Control is achieved when the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities. All significant intercompany transactions and balances within the Proforma Group are eliminated on consolidation.

Associates are entities over which the Proforma Group exercises significant influence, through participation in the financial and operating policy decisions of the investee. The equity method of accounting is used.

- (c) **FINANCIAL ASSETS** – Financial assets include cash and bank balances, trade and other receivables. Trade and other receivables are stated at their nominal values as reduced by appropriate allowances for estimated irrecoverable amounts.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**3. Summary of Significant Accounting Policies – continued**

- (d) **FINANCIAL LIABILITIES AND EQUITY** – Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities include interest-bearing bank loans and bank overdrafts, trade and other payables and finance lease obligations. The accounting policy adopted for finance lease obligations is outlined below. Trade and other payables are stated at their nominal values.

Interest-bearing bank loans and bank overdrafts are recorded at the proceeds received. Finance costs are accounted for on an accrual basis and are added to the carrying amounts of the instruments to the extent that they are not settled in the period in which they arise.

Equity instruments are recorded at fair values of the consideration received, net of direct issue costs.

- (e) **MINORITY INTEREST** – Minority interest is stated at the appropriate proportion of the pre-acquisition carrying amounts of the net assets of the subsidiary adjusted for the appropriate share of post acquisition profit or loss.
- (f) **INVENTORIES** – Inventories are measured at the lower of cost (weighted average method) and net realisable values. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.
- (g) **PROPERTIES, PLANT AND EQUIPMENT** – Properties, plant and equipment are carried at cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

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

Depreciation is charged so as to write off the cost of assets, other than freehold land, over their estimated useful lives, using the straight-line method, on the following bases:

Freehold building	–	50 years
Leasehold properties	–	over remaining lease term of 57 years
Renovation	–	5 to 10 years
Motor vehicles	–	5 to 10 years
Plant and equipment	–	3 to 6 years
Furniture, fittings and office equipment	–	1 to 10 years

Depreciation is not provided on freehold land.

Fully depreciated assets still in use are retained in the financial statements.

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.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**3. Summary of Significant Accounting Policies – continued**

- (h) **INVESTMENT PROPERTIES** – Investment properties are stated at cost less accumulated depreciation and any impairment loss as allowed under SFRS 25 on Accounting for Investments.

Depreciation is charged so as to write off the cost of asset using the straight-line method over remaining lease term of 50 years.

- (i) **IMPAIRMENT OF ASSETS** – At each balance sheet date, the Proforma Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss (if any). Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

- (j) **PROVISIONS** – Provisions are recognised when the Proforma Group has a present obligation as a result of a past event where it is probable that the obligation will result in an outflow of economic benefits that can be reasonably estimated.
- (k) **LEASES** – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair values at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair values of the assets acquired, are charged to the profit and loss statement over the term of the relevant lease using the effective interest rate method.

Rentals payable under operating leases are charged to the profit and loss statement on a straight-line basis over the term of the relevant lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**3. Summary of Significant Accounting Policies – continued**

- (l) **REVENUE RECOGNITION** – 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.

Interest income is accrued on a time proportionate basis, by reference to the principal outstanding and at the interest rate applicable, on an effective yield basis.

Dividend income from investments is recognised when the right to receive payment has been established.

- (m) **GOVERNMENT GRANTS** – Government grants relating to expenditures which are not capitalised are credited to the profit and loss statement to match the related expenditure when incurred.
- (n) **RETIREMENT BENEFIT COSTS** – Payments to defined contribution retirement benefit plans (including state-managed retirement benefit schemes) are charged as an expense when incurred.
- (o) **INCOME TAX** – Tax expense is determined on the basis of tax effect accounting, using the liability method, and it is applied to all significant temporary differences arising between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, except that a debit balance for deferred tax is not carried forward unless there is a reasonable expectation of realisation in the foreseeable future.

Deferred tax assets and liabilities are measured using the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted by the balance sheet date. Deferred tax is charged or credited to the profit and loss statement. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority.

- (p) **FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION** – Transactions in foreign currencies are recorded in their measurement currencies using the rate ruling on the date of the transaction. At each balance sheet date, recorded monetary balances and balances carried at fair values that are denominated in foreign currencies are reported at the rates ruling at the balance sheet date. All realised and unrealised exchange adjustment profits and losses are dealt with in the profit and loss statement.

For inclusion in the consolidated financial statements, assets and liabilities of the foreign subsidiaries are translated into Singapore dollars at the rates of exchange approximating those ruling at the balance sheet date. The profit and loss statements are translated at the average rates of exchange for the year, and the opening net investment in the foreign entities are translated at the historical rates. The resulting currency translation differences are taken to the currency translation reserve. On disposal of a foreign entity, the accumulated currency translation differences are recognised in the profit and loss statement as part of the profit or loss on disposal.



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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**4. Financial Instruments and Risk Management**

**(a) Foreign Currency Risk**

Foreign exchange risk refers to the risk that movement in foreign currency exchange rate against Singapore dollars will affect the Proforma Group financial results and its cash flows.

The Proforma Group transacts business in various foreign currencies, including United States dollars and Chinese Renminbi, therefore is exposed to foreign exchange risk. These risks are managed through natural hedges to the extent possible and forward contracts to hedge their exposure to foreign currency risk in the local reporting currency.

The Company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. Currency exposure to the net assets of the Group's subsidiaries is managed primarily through borrowings denominated in the related foreign currencies.

**(b) Interest Rate Risk**

Interest rate risk arises from the potential changes in interest rates that may have an adverse effect on the Proforma Group in the current reporting period and in future years.

The Proforma Group is exposed to interest rate risk through the impact of interest rate changes on interest-bearing liabilities in the form of bank borrowings, trust receipts and finance lease obligations. These bank borrowings bear variable rates of interest determined based on a margin over the base lending rates of the relevant banks.

The details of its bank borrowings, trust receipts and finance leases obligations are disclosed in Notes 12, 13 and 16.

The Proforma Group adopts a policy of constantly monitoring movements in interest rates. Presently, it does not use derivative financial instruments to hedge its interest rate risk.

**(c) Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a loss to the Proforma Group.

The Proforma Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, as estimated by the Proforma Group's management based on prior experience and the current economic environment. The Proforma Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Cash and fixed deposits are held with creditworthy financial institutions.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**4. Financial Instruments and Risk Management – continued**

**(d) Liquidity Risk**

Liquidity risk arises from the possibility that the Proforma Group is unable to meet its obligations toward other counterparties.

The Proforma Group maintains sufficient cash and cash equivalents, and internally generated cash flows to finance their activities. The Proforma Group finance their liquidity needs through internally generated cash flows and minimizes liquidity risk by keeping committed credit lines available.

**(e) Fair Values of Financial Assets and Financial Liabilities**

The carrying values of the Proforma Group's cash and bank balances, trade and other current receivables, trust receipts, trade and other payables approximate fair values due to the relatively short term maturity of these financial instruments except for interest-bearing bank loans. The carrying value of the interest-bearing bank loans approximate fair values as these instruments bear interest at variable rates as disclosed in Note 12.

**5. Related Parties Transactions**

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 operating decisions.

Some of the transactions and arrangements are with related parties and the effect of these on the basis determined between the parties are reflected in these financial statements. The balances are unsecured, interest-free and without fixed repayment terms.

Significant transactions with related parties:

	<b>Year ended 31 December</b>		
	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Sales of motion control and industrial computing systems	(292)	(232)	(253)
Consultancy fees income	(88)	–	–
Management fee income	(12)	(12)	(12)
Purchase of goods and services	131	120	175
Consultancy fees paid/payable to a director of the company	–	–	7
Commission expense	16	7	6
Rental expense	–	8	25
Rental expense paid/payable to a director of a subsidiary	–	9	14

Significant transaction with the associates:

Sale of goods	(9)	(27)	(202)
Management fee income	–	(72)	(66)
Purchase of goods	223	213	103

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**6. Trade Receivables**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
Outside parties	7,882
Less: Allowance for doubtful debts	(59)
	<hr/>
Net	7,823
Related parties (Note 5)	406
Associates (Note 9)	10
	<hr/>
Total	<u>8,239</u>

**7. Other Receivables and Prepayments**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
Amount due from directors	18
Tax recoverable	18
Deposits	48
Prepayments	332
Advances to suppliers	117
Other receivables	82
	<hr/>
	<u>615</u>

The amount due from directors are unsecured, interest-free and without fixed repayment terms.

Prepayments of the Proforma Group include \$252,000 of expenditure incurred in connection with the proposed listing of the shares of the company on the SGX-ST.

**8. Inventories**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
At cost:	
Components parts	4,389
Work in progress	175
Finished goods	1,042
	<hr/>
	<u>5,606</u>

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**9. Investment in associates**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
Unquoted equity shares, at cost	772
Share of post-acquisition retained earnings	308
Total	<u>1,080</u>

The details of the associates are as follows:

<u>Name of associate</u>	<u>Country of incorporation/ operations</u>	<u>Principal activities</u>	<u>Effective interest held by the Proforma Group</u> %
<b><u>Held by the Servo Dynamics Pte Ltd</u></b>			
Maxon Motor (Suzhou) Co., Ltd <sup>(1)</sup>	People's Republic of China	Assembling high precise mechanically and electronically driven control systems	50
<b><u>Held by the Leaptron Engineering Pte Ltd</u></b>			
Nyquist Asia Pte Ltd <sup>(2)</sup>	Singapore	Market, distribute and provide technical support for machine and robot control systems	25

(1) Audited by Justice United Certified Public Accountants, Certified Public Accountants, People's Republic of China.

(2) Audited by BDO Raffles, Certified Public Accountants, Singapore.

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**10. Properties, Plant and Equipment**

	Freehold land and building	Leasehold properties	Renovation	Motor vehicles	Plant and equipment	Furniture, fittings and office equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cost:</b>							
At 1 January 2004	153	3,947	15	319	32	994	5,460
Currency translation adjustment	(5)	–	–	(12)	(1)	(13)	(31)
Additions	–	–	1	62	11	150	224
Disposals	–	–	–	–	–	(2)	(2)
At 31 December 2004	148	3,947	16	369	42	1,129	5,651
<b>Accumulated depreciation:</b>							
At 1 January 2004	22	357	12	104	21	755	1,271
Currency translation adjustment	(1)	–	–	(4)	–	(6)	(11)
Charge for the year	3	69	1	65	5	156	299
Disposals	–	–	–	–	–	(2)	(2)
At 31 December 2004	24	426	13	165	26	903	1,557
<b>Carrying amounts:</b>							
At 1 January 2004	131	3,590	3	215	11	239	4,189
At 31 December 2004	124	3,521	3	204	16	226	4,094

Motor vehicles and equipment with aggregate net book value of \$116,000 are under finance lease arrangements (Note 16).

**11. Investment properties**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
<b>Cost:</b>	
At 1 January 2004 and 31 December 2004	834
<b>Accumulated depreciation:</b>	
At 1 January 2004	150
Charge for the year	17
At 31 December 2004	167
<b>Carrying amounts:</b>	
At 1 January 2004	684
At 31 December 2004	667

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**12. Bank Loans**

	As at 31 December 2004
	\$'000
Bank loans:	
Bank loan A – secured	1,333
Bank loan B – secured	22
	<hr/>
	1,355
Unsecured	1,006
	<hr/>
Total	2,361
	<hr/>
Current portion of bank loans:	
Bank loan A – secured	120
Bank loan B – secured	5
	<hr/>
	125
Unsecured	999
	<hr/>
	1,124
	<hr/>
Non-current portion of bank loans:	
Bank loan A – secured	1,213
Bank loan B – secured	17
	<hr/>
	1,230
Unsecured	7
	<hr/>
	1,237
	<hr/>

Certain unsecured bank loans of \$820,000 which bear average effective interest rate of 5% per annum are covered by a corporate guarantee given by another subsidiary and personal guarantees provided by some of the company's directors.

Bank loan A is secured by legal mortgages over two leasehold properties and investment properties of a subsidiary and covered by joint and several guarantees provided by the subsidiary's directors. Interest is chargeable at 1.75% per annum above the bank's costs of funds.

Bank loan B is secured by legal mortgage over a freehold property of a subsidiary and joint and several guarantees provided by the subsidiary's director and a third party. Interest is chargeable at 1.75% per annum above the financial institution's base lending rate.

**13. Trust Receipts**

The trust receipts facilities are covered by joint and several personal guarantees given by some of the directors of the company.

For the financial year ended 31 December 2004, the average effective interest rates for the Proforma Group was 5.75% per annum.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**14. Trade Payables**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
Outside parties	4,598
Related parties (Note 5)	133
Associates (Note 9)	127
	<u>4,858</u>

**15. Other Payables**

	<b>As at 31 December 2004</b>
	<b>\$'000</b>
Outside parties	516
Related parties (Note 5)	58
Amount due to directors	56
Accruals	945
Advances from customers	64
	<u>1,639</u>

The amounts due to directors are unsecured, interest-free and without fixed repayment terms.

**16. Obligations Under Finance Leases**

	<b>As at 31 December 2004</b>	
	Minimum lease payments	Present values of minimum lease payments
	\$'000	\$'000
Amounts payable under finance leases:		
Within one year	40	35
In the second to fifth years inclusive	57	49
	<u>97</u>	<u>84</u>
Less: Future finance charges	(13)	
Present values of lease obligations	<u>84</u>	

The effective borrowing rate ranges from 5% to 12% per annum.



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**17. Deferred Tax Liabilities**

The balance arises mainly due to the tax effect of the excess of tax over book depreciation of properties, plant and equipment.

**18. Revenue**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Sale of motion control and industrial computing systems	21,298	39,003	53,458

**19. Other Operating Income**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Bank interest income	13	5	3
Bad trade receivables recovered	–	4	6
Compensation from customer	–	–	112
Consultancy fee from related parties (Note 5)	88	–	–
Gain on disposal of properties, plant and equipment	11	–	–
Government grant	8	11	3
Management fees:			
– Associate (Note 9)	–	72	66
– Related party (Note 5)	12	12	12
Rental income	33	27	33
Service income	222	196	240
Others	35	27	37
Total	422	354	512

**20. Other Operating Expenses**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Allowance for doubtful trade receivables	–	2	34
Allowance for inventories	–	87	45
Bad debts written off	–	64	130
Depreciation expense of properties, plant and equipment	180	227	299
Depreciation expense of investment properties	17	17	17
Foreign exchange adjustment loss, net	89	32	427*
Inventories written off	57	38	55
Others	–	3	5
	343	470	1,012

\* Included in foreign exchange adjustment loss is an amount of approximately \$126,000 that relates to realised foreign exchange loss arising from a repayment of a director's loan denominated in foreign currencies by a subsidiary of the Proforma Group in 2004.

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**21. Finance costs**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Interest expense to non-related companies:			
Bank borrowings	78	86	88
Finance lease charges	–	6	5
Total	78	92	93

**22. Profit Before Income Tax**

	2002	2003	2004
Number of employees at end of year	136	175	189

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Directors' fees – subsidiaries	–	90	2
Directors' remuneration			
Company	201	207	209
Subsidiaries	173	340	379
Cost of defined contribution plan included in staff costs	310	461	371
Staff costs (inclusive of directors' remuneration)	2,910	4,070	4,437

**23. Income Tax Expense**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Current	317	638	1,203
Deferred	(7)	(3)	–
Overprovision of prior years' taxation	(59)	–	–
Share of tax of associates	9	52	64
	260	687	1,267

The Proforma Group's income is subject to taxation in the various jurisdictions in which the Company and its subsidiaries operate.

In accordance with the People's Republic of China ("PRC") tax legislations applicable to foreign investment enterprises, Servo Suzhou Co., Ltd., incorporated in the PRC, are entitled to exemptions from PRC enterprise income tax for two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years. Thereafter, they are entitled to a 50% tax relief from PRC enterprise income tax for the next three years ("tax relief period"). Once the relevant tax relief period expires, enterprise income tax will be charged, depending on the registered location of the subsidiary, at 33% or 24% on the taxable profit reported in the PRC statutory financial statements of the subsidiary.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**23. Income Tax Expense – continued**

For the financial years ended 31 December 2002 and 2003, Servo Suzhou Co., Ltd. was exempted from enterprise income tax. Financial year ended 31 December 2004 is the first year of tax relief period, therefore a reduced income tax rate of 12% applies, subject to formal approval from the relevant authorities. The Proforma Group financial information is prepared based on the assumption that a company of the Proforma Group is entitled to the same tax benefits as Servo Suzhou Co., Ltd.

Pursuant to the Circular [94] 001 issued by the Ministry of Finance and State Tax Bureau of the PRC, and subsequently confirmed by the State Tax Bureau, Beijing Junyizhicheng Technology Developing Co., Ltd. was entitled to tax exemption for the financial years ended 31 December 2003 and 2004 respectively.

Chongqing Junzhi Automatic Instrument Control Co., Ltd. and Shenzhen Servo Dynamics Co., Ltd., incorporated in PRC as local enterprises are subject to PRC's enterprise income tax which will be charged, depending on the registered location of the subsidiary, at 33% and 15% respectively on the taxable profit reported in the PRC statutory financial statements of the subsidiaries.

Foreign taxation for other jurisdictions, which comprised mainly the income tax of SD Thailand, SD Malaysia and SD Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

The income tax expense varied from the amount of income tax expense determined by applying the Singapore income tax rate of 22%, 22% and 20% for FY2002, FY2003 and FY2004 respectively to profit before income tax as a result of the following differences:

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Profit before income tax	1,779	3,743	7,137
Less: Share of results of associates	(113)	(181)	(224)
	1,666	3,562	6,913
Income tax expense at statutory rate	367	784	1,383
Non-allowable items	42	24	11
Utilisation of deferred tax benefits previously not recognised	(10)	(4)	(45)
Tax exempt income	(96)	(176)	(65)
Effect of different tax rate of overseas operations	(1)	(18)	(89)
Overprovision of prior years' taxation	(59)	–	–
Share of tax of associates	9	52	64
Others	8	25	8
	260	687	1,267

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**24. Operating Lease Commitments**

	Year ended 31 December		
	2002	2003	2004
	\$'000	\$'000	\$'000
Lease payment under operating lease for the year	80	109	130

At the balance sheet date, the commitments in respect of operating leases for the rental of office premises and warehouse spaces were as follows:

	As at 31 December 2004 \$'000
Future minimum lease payments payable:	
Within one year	230
In the second to fifth year inclusive	149
Total	379

Operating lease commitments stated above are based on existing rates for certain premises. These rental rates are subject to future adjustments based on the terms of the lease arrangements.

**25. Earnings Per Share**

Earnings per share for the financial year ended 31 December 2002, 2003 and 2004 have been calculated based on the net profit attributed to the shareholders of the Proforma Group and on the basis that at the end of each financial year, the issued share capital of the Company comprised 131,798,700 ordinary shares of \$0.05 each which represents the pre-invitation share capital of the Company.

**26. Dividends**

The Company has not paid or proposed any dividend since incorporation.

During the financial years under review, an associate in the Proforma Group, Maxon Motor (Suzhou) Co., Ltd., declared dividends of \$393,000 (RMB1,832,811), \$234,000 (RMB1,143,013) and \$280,000 (RMB1,376,666) for FY2002, 2003 and 2004 respectively.

Subsequent to 31 December 2004, Servo Dynamics and Maxon Motor (Suzhou) Co., Ltd. declared dividends of approximately \$7.09 million and \$333,000 (RMB 1,681,317) respectively, to the then shareholders as at 31 December 2004.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**27. Segment Information**

(i) Business segments

The Proforma Group's primary business segments are sales of motion control systems and industrial computing systems.

(ii) Geographical segments

The Proforma 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 proforma 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) Information by business segments:

**Proforma Group Profit and Loss Statements**  
**Year ended 31 December 2004**

	Motion Control	Industrial Computing	Elimination	Total
	\$'000	\$'000	\$'000	\$'000
<u>Revenue</u>				
External revenue	46,591	6,867	–	53,458
Inter-segment revenue	–	848	(848)	–
	46,591	7,715	(848)	53,458
<u>Result</u>				
Segment result	6,210	760	–	6,970
Rental income from investment properties				33
Interest income				3
Finance costs				(93)
Share of result of associates				224
Profit before income tax				7,137
Income tax expense				(1,267)
Profit after income tax				5,870

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**27. Segment Information – continued**

(v) Information by business segments (cont'd):

**Proforma Group Profit and Loss Statements**

**Year ended 31 December 2003**

	Motion Control	Industrial Computing	Elimination	Total
	\$'000	\$'000	\$'000	\$'000
<u>Revenue</u>				
External revenue	34,172	4,831	–	39,003
Inter-segment revenue	4	347	(351)	–
	<u>34,176</u>	<u>5,178</u>	<u>(351)</u>	<u>39,003</u>
<u>Result</u>				
Segment result	3,232	390	–	3,622
Rental income from investment properties				27
Interest income				5
Finance costs				(92)
Share of result of associates				181
				<u>3,743</u>
Profit before income tax				(687)
Income tax expense				
				<u>3,056</u>

**Year ended 31 December 2002**

<u>Revenue</u>				
External revenue	18,098	3,200	–	21,298
Inter-segment revenue	35	215	(250)	–
	<u>18,133</u>	<u>3,415</u>	<u>(250)</u>	<u>21,298</u>
<u>Result</u>				
Segment result	1,173	525	–	1,698
Rental income from investment properties				33
Interest income				13
Finance costs				(78)
Share of result of associates				113
				<u>1,779</u>
Profit before income tax				(260)
Income tax expense				
				<u>1,519</u>

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**27. Segment Information – continued**

(v) Information by business segments (cont'd):

**Proforma Group Balance Sheet**  
**As at 31 December 2004**

	Motion Control	Industrial Computing	Elimination	Total
	\$'000	\$'000	\$'000	\$'000
<u>Assets</u>				
Segment assets	16,425	1,931	(72)	18,284
Unallocated corporate assets				7,742
				<u>26,026</u>
<u>Liabilities</u>				
Segment liabilities	6,059	510	(72)	6,497
Unallocated corporate liabilities				5,079
				<u>11,576</u>
<u>Other information</u>				
Capital expenditure	211	13	–	224
Depreciation expense of properties, plant and equipment	278	21	–	299
Depreciation expense of investment properties	17	–	–	17
Other non-cash expenses	<u>231</u>	<u>33</u>	<u>–</u>	<u>264</u>



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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**27. Segment Information – continued**

(vi) 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.

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
<u>Revenue</u>			
South Asia	16,099	27,719	34,381
North Asia	5,090	11,166	18,824
Others <sup>(1)</sup>	109	118	253
	<hr/>	<hr/>	<hr/>
Consolidated	21,298	39,003	53,458
	<hr/>	<hr/>	<hr/>
<u>Carrying amount of segment assets</u>			
South Asia			19,806
North Asia			6,220
			<hr/>
Consolidated			26,026
			<hr/>
<u>Capital expenditure</u>			
South Asia			148
North Asia			76
			<hr/>
Consolidated			224
			<hr/>

(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.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**28. Statements of Proforma Adjustments**

**Balance Sheet**

**As at 31 December 2004**

	Aggregation of financial information <sup>(i)</sup>	Elimination of investment <sup>(ii)</sup>	Elimination of SDL <sup>(iii)</sup>	Adjustment for minority interest <sup>(iv)</sup>	Elimination of intercompany balances	Per Proforma Group
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b><u>ASSETS</u></b>						
<b>Current assets:</b>						
Cash and bank balances	5,605	–	120	–	–	5,725
Trade receivables	11,335	–	–	–	(3,096)	8,239
Other receivables and prepayments	738	–	(100)	–	(23)	615
Inventories	5,705	–	–	–	(99)	5,606
Total current assets	23,383	–	20	–	(3,218)	20,185
<b>Non-current assets:</b>						
Investments in associates	1,080	–	–	–	–	1,080
Investments in subsidiaries	364	(364)	–	–	–	–
Properties, plant and equipment	4,094	–	–	–	–	4,094
Investment properties	667	–	–	–	–	667
Total non-current assets	6,205	(364)	–	–	–	5,841
<b>Total assets</b>	<b>29,588</b>	<b>(364)</b>	<b>20</b>	<b>–</b>	<b>(3,218)</b>	<b>26,026</b>
<b><u>LIABILITIES AND PROFORMA SHAREHOLDERS' EQUITY</u></b>						
<b>Current liabilities:</b>						
Bank loans	1,124	–	–	–	–	1,124
Trust receipts	787	–	–	–	–	787
Trade payables	7,897	–	–	–	(3,039)	4,858
Other payables	1,718	–	–	–	(79)	1,639
Income tax payable	1,825	–	–	–	–	1,825
Current portion of finance leases	35	–	–	–	–	35
Total current liabilities	13,386	–	–	–	(3,118)	10,268
<b>Non-current liabilities:</b>						
Long-term loans	1,237	–	–	–	–	1,237
Finance leases	49	–	–	–	–	49
Deferred tax liabilities	22	–	–	–	–	22
Total non-current liabilities	1,308	–	–	–	–	1,308
Minority interest	–	–	–	213	–	213
Proforma shareholders' equity	14,894	(364)	20	(213)	(100)	14,237
<b>Total liabilities and proforma shareholders' equity</b>	<b>29,588</b>	<b>(364)</b>	<b>20</b>	<b>–</b>	<b>(3,218)</b>	<b>26,026</b>

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**28. Statements of Proforma Adjustments – continued**

**Profit and Loss Statement**

**Financial year ended 31 December 2004**

	Aggregation of financial information <sup>(i)</sup>	Adjustment for minority interest <sup>(iv)</sup>	Elimination of intercompany transactions	Per Proforma Group
	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>	63,392	–	(9,934)	53,458
<b>Cost of sales</b>	(48,638)	–	10,014	(38,624)
<b>Gross profit</b>	14,754	–	80 <sup>(v)</sup>	14,834
Other operating income	627	–	(115)	512
Distribution costs	(1,367)	–	81	(1,286)
Administrative expenses	(6,076)	–	34	(6,042)
Other operating expenses	(1,012)	–	–	(1,012)
<b>Profit from operations</b>	6,926	–	80	7,006
Finance costs	(93)	–	–	(93)
Share of results of associates	224	–	–	224
<b>Profit before income tax</b>	7,057	–	80	7,137
Income tax expense	(1,267)	–	–	(1,267)
<b>Profit after income tax</b>	5,790	–	80	5,870
Minority interest	–	(89)	–	(89)
<b>Net profit for the year</b>	5,790	(89)	80	5,781

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**28. Statements of Proforma Adjustments – continued**

**Profit and Loss Statement**

**Financial year ended 31 December 2003**

	Aggregation of financial information <sup>(i)</sup>	Elimination of SDL <sup>(iii)</sup>	Adjustment for minority interest <sup>(iv)</sup>	Elimination of intercompany transactions	Per Proforma Group
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>	43,707	–	–	(4,704)	39,003
<b>Cost of sales</b>	(33,386)	–	–	4,657	(28,729)
<b>Gross profit</b>	10,321	–	–	(47) <sup>(v)</sup>	10,274
Other operating income	402	–	–	(48)	354
Distribution costs	(1,110)	–	–	–	(1,110)
Administrative expenses	(5,442)	–	–	48	(5,394)
Other operating expenses	(538)	68	–	–	(470)
<b>Profit from operations</b>	3,633	68	–	(47)	3,654
Finance costs	(92)	–	–	–	(92)
Share of results of associates	181	–	–	–	181
<b>Profit before income tax</b>	3,722	68	–	(47)	3,743
Income tax expense	(687)	–	–	–	(687)
<b>Profit after income tax</b>	3,035	68	–	(47)	3,056
Minority interest	–	–	42	–	42
<b>Net profit for the year</b>	3,035	68	42	(47)	3,098

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**28. Statements of Proforma Adjustments – continued**

**Profit and Loss Statement**

**Financial year ended 31 December 2002**

	Aggregation of financial information <sup>(i)</sup>	Elimination of SDL <sup>(iii)</sup>	Adjustment for minority interest <sup>(iv)</sup>	Elimination of intercompany transactions	Per Proforma Group
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Revenue</b>	24,163	–	–	(2,865)	21,298
<b>Cost of sales</b>	(17,606)	–	–	2,758	(14,848)
<b>Gross profit</b>	6,557	–	–	(107) <sup>(v)</sup>	6,450
Other operating income	508	–	–	(86)	422
Distribution costs	(818)	–	–	–	(818)
Administrative expenses	(4,063)	–	–	96	(3,967)
Other operating expenses	(343)	–	–	–	(343)
<b>Profit from operations</b>	1,841	–	–	(97)	1,744
Finance costs	(78)	–	–	-	(78)
Share of results of associates	(34)	147	–	–	113
<b>Profit before income tax</b>	1,729	147	–	(97)	1,779
Income tax expense	(260)	–	–	–	(260)
<b>Profit after income tax</b>	1,469	147	–	(97)	1,519
Minority interest	–	–	(6)	–	(6)
<b>Net profit for the year</b>	1,469	147	(6)	(97)	1,513

Notes to the adjustments to the Proforma Group financial information:

- (i) The aggregated figures are based on the financial information (as described in Note 2.2(b) and (c) of Section E) of the companies in the Proforma Group.
- (ii) This represents proforma adjustment to eliminate cost of investment in subsidiaries held by SD Suzhou (as described in Note 2.1 of Section E).

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**28. Statements of Proforma Adjustments – continued**

- (iii) These proforma adjustments reflect the exclusion of SDL Technologies Pte Ltd (“SDL”) which has been disposed of by Servo Dynamics in April 2004 to a third party. SDL was previously held by Servo Dynamics in FY2002 and FY2003. The financial information gives effect to the exclusion of SDL as if it has never been included in the Proforma Group. The proforma adjustments included the effects of (a) reinstating cash outflow in FY2002 on additional investment in SDL of \$120,000 as recorded in the audited financial statements of Servo Dynamics in FY2002 and 2003; (b) impairment in cost of investment in SDL as recorded in the audited financial statements of Servo Dynamics in FY2002 and FY2003; and (c) proceeds receivables arising from disposal of SDL of \$100,000 as recorded in the audited financial statements of Servo Dynamics in FY2004.
- (iv) This represents the minority interests’ share of 40% in SD Thailand and 25% in SD Malaysia in FY2002 to FY2004 and 50% in Beijing AMC upon incorporation in FY2004.
- (v) This represents the elimination of sales and purchases between companies within the Proforma Group and elimination of unrealised profit for inventories within the Proforma Group.

Save as disclosed, there are no other material adjustments made in the preparation of Proforma Group financial information.

**29. Post balance sheet events**

Other than the events disclosed in the relevant notes to the Proforma Group financial information, the following events took place subsequent to 31 December 2004:

- (a) On 18 August 2005, MCG has been allotted and issued 50,758 shares of S\$1.00 each, in the capital of a Singapore company, JM Vistec System Pte Ltd (“JM Vistec”) which is engaged in the business of sale of vision related products, for a consideration sum of S\$100,000. On 20 September 2005, MCG has been allotted and issued 101,515 shares of S\$1.00 each, in the capital of JM Vistec for a consideration of S\$200,000, resulting in MCG holding approximately 67% of the entire issued and paid up share capital in JM Vistec.

The financial effect of this acquisition on the Proforma Group’s results for FY2004 is not material.

- (b) On 18 April 2005, Servo Dynamics entered into an agreement with Eisele Antriebstechnik GmbH (“Eisele GmbH”) to establish a company, Eisele Asia Co., Ltd (“Eisele Asia”), in People’s Republic of China for the manufacture of motion control products. Eisele GmbH will hold 25% of the registered capital of Eisele Asia upon incorporation and has an option, within two years from the date of incorporation of Eisele Asia, to acquire a further 25% of the registered capital of Eisele Asia from MCG such that MCG and Eisele GmbH will each hold 50% of the registered capital of Eisele Asia. The initial investment will be approximately \$257,000 and is expected to increase to a total of \$1.00 million within a period of two years.
- (c) On 15 May 2005, Servo Dynamics entered into agreement with a Taiwanese company to invest an initial sum of approximately \$150,000 (New Taiwan Dollars 2.71 million) to acquire 19% stake in it by 31 December 2005. The Taiwanese company is engaged in the research and development and the manufacture of motion control components.

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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**29. Post balance sheet events – continued**

- (d) Maxon Electronic Machine International Trade (Shanghai) Co., Ltd. (“Maxon Shanghai”) was incorporated on 15 December 2004 with registered capital of \$326,800 (US\$200,000) intended to be fully subscribed by Servo Dynamics and Interelectric AG at 50% respectively. On 8 February 2005, Servo Dynamics and Interelectric AG invested \$135,246 (US\$83,167) respectively, representing an aggregate of approximately 83.17% of the registered capital of Maxon Shanghai.
- (e) On 9 August 2005, Teo Cher Koon and Chin Hee Loong each transferred their equity interest, representing an aggregate of approximately 39.97% of their entire equity interest in Precision Motion Control Phils Inc. (“PMC Philippines”) to MCG. Teo Cher Koon and Chin Hee Loong, who are also directors in PMC Philippines separately hold 0.015% of the equity interest in PMC Philippines on trust for MCG. Under the law of Philippines, Teo Cher Koon and Chin Hee Loong must be shareholders of PMC Philippines to remain as its directors. Pursuant to this transfer, PMC Philippines became an associated company of MCG.
- (f) On 31 March 2005, MCG and Lee Tick Long, each subscribed for 1 ordinary share of \$1.00 each of the registered capital of Servo-matic Technology (M) Sdn Bhd, representing 50% of the registered capital of Servo-matic Technology (M) Sdn Bhd.
- (g) On 10 August 2005, SD Thailand acquired a plot of land in Thailand for a consideration of THB 12.92 million (approximately S\$517,000).
- (h) At the extraordinary general meeting held on 27 September 2005, the Shareholders of the Company approved *inter alia*, the following:
  - (i) the increase in the authorised share capital of the Company from \$100,000 divided into 100,000 ordinary shares of \$1.00 each to \$100,000,000 divided into 100,000,000 ordinary shares of \$1.00 each;
  - (ii) the Restructuring Exercise as described in the Note 2.1 of section E;
  - (iii) the issue of 6,589,933 ordinary shares of \$1.00 each pursuant to the Restructuring Exercise as described in Note 2.1 to the Proforma Group financial information;
  - (iv) the sub-division of every one ordinary share of \$1.00 each in the authorised and issued and paid-up share capital of the Company into 20 ordinary shares of \$0.05 each (“Share Sub-Division”);
  - (v) the conversion of the company into a public limited company and the change of its name to “ISDN Holdings Limited”;
  - (vi) the adoption of the new Articles of Association of the Company;
  - (vii) the adoption of the ISDN Holdings Share Option Scheme and the issue and allotment of new shares pursuant to the exercise of options granted under the ISDN Holdings Share Option Scheme, the rules of which are set out in the Prospectus dated 15 November 2005;
  - (viii) the issue of 27,000,000 new ordinary shares of \$0.05 each in the Company. The new shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued and fully paid shares;



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**E. NOTES TO PROFORMA GROUP FINANCIAL INFORMATION – CONTINUED**

**29. Post balance sheet events – continued**

- (ix) the authorisation for the Directors, pursuant to Section 161 of the Companies Act and the Articles of Association, to allot and issue Shares and/or convertible securities in the Company (whether by way of rights, bonus, or otherwise) at any time and from time to time thereafter to such persons and on such terms and conditions for and such purposes as the Directors may in their absolute discretion deem fit provided always that the aggregate number of shares and/or convertible securities to be issued shall not exceed fifty per cent. (50%) of the issued share capital of the Company, or which the aggregate number of shares and/or convertible securities to be issued other than on a pro rata basis to existing shareholders shall not exceed twenty per cent. (20%) of the issued share capital of the Company (the percentage of issued share capital being calculated based on the post-Invitation issued share capital of our Company after adjusting for new shares arising from the conversion or exercise of any convertible securities and employee share options on issue at the time such authority is given and which were issued pursuant to previous shareholders' approval adjusted for any subsequent consolidation or subdivision of shares, and unless revoked or varied by the Company in general meeting and that such authority shall continue in force until the conclusion of the next Annual General Meeting or the expiration of the period within which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier.