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ENGINEERING PROGRESS
THROUGH PRECISION



SPINDEX

SPINDEX INDUSTRIES LIMITED **Annual Report 2006**



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ABOUT US



SPINDEX INDUSTRIES LIMITED was founded in 1981. Today it is a highly integrated solution-provider of precision-machined components and assemblies with manufacturing locations in Singapore, Malaysia, China and Vietnam. The Company serves diverse market sectors consisting of MNCs in imaging and printing, domestic appliances, consumer electronics, data storage, machinery, automotive systems and telecommunications. Through investments in flexible manufacturing and information technology and an agile organisation, the Company is able to constantly re-configure its resources to customise its products and services to the individual needs of its customers. Spindex prides itself on its ability to integrate into the supply chain of its worldwide customer base and continuously re-invent itself to be at the forefront of today's global marketplace. It is one of the first machining companies in the region to be certified by ISO 14001, OHSAS 18001 and TS 16949. It also has a comprehensive ITE certified in-house training program and is an approved ITE Training Centre in the ITE Skills Certification in Autonomous Maintenance.



Tan Choo Pie @ Tan Chang Chai
Chairman

CHAIRMAN'S STATEMENT

"Our strategy to focus on key customers and business sectors where we have a competitive advantage has yielded positive results. In FY2006, the Group achieved turnover growth of 16% to \$55.8 million and net profit rose 48% to \$2.2 million."

The Year In Review

As was expected, the challenging business conditions encountered in FY2005 continued into FY2006. During the year, we persevered with our customer oriented and market focus strategy that was initiated two years ago. Together with effective cost control management, the Group achieved turnover growth of 16% to \$55.8 million and net profit rose 48% to \$2.2 million.

The increase in turnover was broad based. Strong demand in our key business sectors of "Imaging & Printing" (IP) and "Others" (comprising Domestic Appliances, Consumer Electronics and Data Storage) more than compensated for lower orders from the Machinery, Automotive Systems & Telecommunications business sector (MAT).

Turnover from the IP sector soared 44% to \$27.3 million as we secured orders for higher value-added items and undertook new business for existing IP customers. Under the "Others" sector, higher shipments to the tape drive, medical and recreation-related industries resulted in turnover growth of 17% to \$13.2 million. Under MAT, turnover dipped 14% to \$15.2 million. The decline was mainly attributed to our decision to exit the telecommunications industry.

With higher turnover and relatively stable raw material prices in FY2006, gross profit rose 11% to \$9.8 million. Despite the initial startup costs of a



new manufacturing facility in Hanoi and a one-time costs related to the change in manufacturing process to meet new environmental standards, profit from operations grew 42% to \$2.8 million.

To reward shareholders for the better performance, your Directors have proposed a final dividend of 0.7 cents per share. The total gross dividend payout proposed, amounting to \$808,000, is 75% higher than the gross dividend of \$461,000 paid in FY2005.

Customer Consolidation and Manpower Development

The ability to adapt to an ever-changing business environment is crucial to the growth of any organisation. For years, our business model has been centered on servicing a diverse customer base from various industries. Although we have been profitable, meeting the needs of a diverse group of customers has limited our ability to leverage on a highly price sensitive but high volume business environment that is prevalent in Asia. It is against this background that we have consolidated and rationalised our customer base and market sectors over the last two years.

We have benefited from this customer consolidation exercise. By focusing our resources on key customers, we were able to derive higher cost efficiencies and scalability to achieve a significant growth in sales and profit in FY2006.



CHAIRMAN'S STATEMENT

In addition to business restructuring, we have also taken concrete steps to develop a larger talent pool of skilled and knowledge workforce through training and education. This manpower development programme will enable us to meet the future manpower needs of our expanded capacity in the various manufacturing locations.

Prospects for FY2007

The business environment is expected to remain competitive in FY2007. Volatile raw material prices will add an element of uncertainty to input costs and high oil prices continue to be an area of concern. Nevertheless, the Group will continue to monitor and manage its operating costs closely so as to minimise any negative impact on its profit margin.

Business expansion and new product launches by customers will underpin strong demand for the Group's products in the current financial year. Better performance at the Malaysian plant is expected with the commencement of new projects to support existing IP and automotive customers.

In Hanoi, we expect to breakeven in FY2007 as the new plant benefits from greater economies of scale with increased production from existing customers and new business generated from new foreign investments in the IP sector.



The Suzhou facility turned profitable in 2HFY2006. Our exit from the telecommunications segment has allowed us to focus resources on our key customers and market sectors.

Appreciation

Despite the challenges in FY2006, our management and staff have worked diligently to implement the changes in business direction and structure that were approved by the Board. On behalf of my fellow directors, I wish to thank them for their commitment and perseverance under trying market conditions. This is particularly commendable as amidst these changes we were able to achieve a significant growth in sales and profit.

I am also grateful to my fellow directors and would like to record my heartfelt appreciation to all of them for their valuable contributions and deliberations on major decisions concerning the Group's business direction and look forward to their continued guidance in FY2007. Finally, I would also like to thank our customers, shareholders, bankers, business associates and suppliers for their generous support.

Tan Choo Pie @ Tan Chang Chai

Chairman

SEGMENTAL RESULTS



▲ Imaging and Printing

49%

24%

▼ Domestic Appliances,
Consumer Electronics & Others



◀ Machinery, Automotive Systems
& Telecommunications

27%



MANUFACTURING LOCATIONS



**Headquarters,
SINGAPORE**



**Johor,
MALAYSIA**



**Hanoi,
VIETNAM**



**Shanghai,
CHINA**



**Suzhou,
CHINA**

BOARD OF DIRECTORS



Tan Choo Pie @ Tan Chang Chai

Chairman

Mr Tan Choo Pie @ Tan Chang Chai is a shareholder of the Company and has been the Executive Chairman of the Spindex Group since July 1989. He plays an important role in setting the investment, expansion, diversification and overall strategy of the Group. Mr Tan's working experience for the last twenty years include positions as senior manager, general manager, managing director and chairman for various companies in the die-casting, electroplating, precision turning, precision machining and various assembly businesses. Mr Tan was also previously Vice-Chairman of Wah Chang International Corporation Pte Ltd and is currently the Non-Executive Chairman of MMI Holdings Limited. Mr Tan holds a Bachelor of Chemical Engineering degree.



Choo Heng Thong

Managing Director

Mr Choo Heng Thong is the founding shareholder of the Spindex Group and the Managing Director of the Company. Prior to setting up the Company in 1983, he had worked for about 3 years in a local precision engineering firm, and another 3 years as a production manager in a multinational corporation involved in the manufacturing of electronics components. He currently oversees the overall operations of the Group. Mr Choo holds a Bachelor of Mechanical Engineering degree with Honours from the University of Newcastle, Australia.



Chew Heng Ching

Independent Director

Mr Chew has been an Independent Director of the Company since 1998 and Chairman of the Audit and Remuneration Committees. He has more than 28 years of corporate management experience. Mr Chew is the Founding President of the Singapore Institute of Directors ("SID") and currently Chairman of its Governing Council. He is also director of various other listed companies and Chairman of their audit/remuneration/nominating committees. Mr Chew was a member of the Corporate Governance Committee that formulated the Code of Corporate Governance for Singapore companies, and a member of the Council on Corporate Governance and Disclosure. He is a board member and currently Chairman of the Singapore International Chamber of Commerce. Mr Chew was also a Member of Parliament and Deputy Speaker of the Singapore Parliament. A Colombo Plan scholar, Mr Chew is a graduate in Industrial Engineering (First Class Honours) and Economics and is a university gold medalist from the University of Newcastle, Australia. He also holds an honorary Doctorate degree in Engineering and is a Fellow member of SID and CPA Australia.



Sim Beng Chye

Independent Director

Mr Sim Beng Chye was appointed as an Independent Director of the Company since 2003 and he is the Chairman of the Nominating Committee. Mr Sim was a founding member of Omni Industries. He became the Executive Director after Omni Industries Limited's listing on SGX in 1997. Upon Omni's merger with Celestica, he assumed the position of Vice President for the Global Plastics Operations. Mr Sim is currently doing his own investments. Mr Sim has extensive experience in the components and contract manufacturing industries. Mr Sim holds a Diploma in Chemical Process Technology and a Certificate in Industrial Management from the Singapore Polytechnic. He also holds a Graduate Diploma in Business Administration from the Singapore Institute of Management.



Chen Chang Rong

Independent Director

Mr Chen Chang Rong was appointed as Independent Director of the Company from August 2005. He has extensive working experience in manufacturing industries and has held senior management positions of General Manager and CEO for the past 15 years. He was the Deputy General Manager of BOSCH Power Tools (China) for more than 7 years. He is currently an Independent Director of a company listed in the Shanghai Stock Exchange and a consultant to several international companies in China. Mr. Chen is also a member in a committee of experts to the People's Government for the provinces of Zhejiang and Jiangsu. In addition to his Bachelor degree in Mechanical Engineering from Zhejiang University, he holds a MBA degree from China Central University.

SENIOR MANAGEMENT

Quek Bee Lian

Group Operations Manager

Ms Quek is responsible for the Group's operations. She joined Spindex Industries Limited in July 1995. Prior to joining the Company, Ms Quek had been working in the accounting field for about 8 years with a number of local manufacturing companies. The last position she held before joining Spindex was an Accounting Manager with a local personal computer manufacturing company. Ms Quek joined the Company as the Finance Manager and was promoted to Financial Controller in July 1999. In July 2006, she was transferred to manage group operations. Ms Quek has a Bachelor degree in Business Administration from the National University of Singapore, a Master of Commerce degree in Professional Accounting from University of New South Wales, Australia and is a CPA.

Ng Ching Siang

General Manager, Headquarters

Mr Ng is responsible for Singapore operations. He joined Spindex Industries Limited in January 1988. Prior to joining the Company, Mr Ng had various working experience as production supervisor and quality control executive with MNCs. He has been working with the Company for the past 17 years as manager in quality control, planning and materials and was promoted to General Manager in February 2006. Mr Ng holds a Bachelor of Arts degree from Nanyang University, Singapore.

Francis Wong Liang Kwang

General Manager, Spindex Malaysia and Vietnam

Mr Wong is responsible for Malaysia and Vietnam operations. He joined Spindex Industries Limited in May 1986. Prior to joining the Company, Mr Wong had about 11 years of working experience, with a number of local precision engineering firms. Mr Wong was a Production Engineering Manager with a local precision engineering company before he joined the Company. He first joined Spindex Industries Limited as Production Manager. He was responsible for the establishment of our Malaysia operation and was eventually promoted to General Manager of Spindex Shanghai in May 1997. In August 2005 Mr Wong was transferred to Malaysia. Mr Wong holds a Certificate in Industrial Engineering from the then National Productivity Board.

Jason Loh Chun Shen

Financial Controller

Mr Loh is responsible for the Group's Accounts and Finance. He first joined the Malaysia plant as an Accountant in July 2000, transferred to Spindex Industries Limited in May 2005 as Finance Manager and promoted to Financial Controller in July 2006. He has four years of auditing and accounting experience prior to joining Spindex Industries Limited. He is a Fellow member of the Association of Chartered Certified Accountants (ACCA) and a Chartered Accountant with the Malaysia Institute of Accountants (MIA).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Tan Choo Pie @ Tan Chang Chai **Chairman**

Mr Choo Heng Thong **Managing Director**

Mr Chew Heng Ching

Mr Sim Beng Chye

Mr Chen Chang Rong

AUDIT COMMITTEE

Mr Chew Heng Ching **Chairman**

Mr Sim Beng Chye

Mr Chen Chang Rong

REMUNERATION COMMITTEE

Mr Chew Heng Ching **Chairman**

Mr Sim Beng Chye

Mr Chen Chang Rong

NOMINATING COMMITTEE

Mr Sim Beng Chye **Chairman**

Mr Chew Heng Ching

Mr Tan Choo Pie @ Tan Chang Chai

REGISTERED OFFICE

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SHARE REGISTRAR

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COMPANY SECRETARIES

Mr Abdul Jabbar Bin Karam Din

Ms Loh Lee Eng

AUDITORS

ERNST & YOUNG

Certified Public Accountants

10 Collyer Quay

#21-01 Ocean Building,

Singapore 049315

AUDIT PARTNER-IN-CHARGE

Mr Tan Seng Choon

Date of Appointment : Financial year
ended 30 June 2006

BANKERS

DBS Bank

Standard Chartered Bank

United Overseas Bank

Malayan Banking Berhad

CORPORATE GOVERNANCE

BOARD MATTERS

PRINCIPLE 1: Every company should be headed by an effective Board to lead and control the Company.

BOARD COMPOSITION AND BALANCE

PRINCIPLE 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from Management. No individual or small group of individuals should be allowed to dominate the Board's decision making.

The Board comprises 5 Directors as follows: -

Executive

Tan Choo Pie @ Tan Chang Chai (Chairman)

Choo Heng Thong (Managing Director)

Independent

Chew Heng Ching

Sim Beng Chye

Chen Chang Rong

The Board has satisfied the Code of Corporate Governance ('Code') as at least one third of the Directors are independent. The Board is of the opinion that its current size is reasonably effective and efficient considering the nature and size of the Group's activities.

The independence of the Directors is reviewed annually by the Nominating Committee ('NC'). The NC adopts the Code's definition of what constitutes an independent director in its review.

Key information regarding the Directors is found on page 8 and 9. The current Board as a group has core competencies necessary to meet the Company's requirements.

CONDUCT OF AFFAIRS

The Board met 2 times during the financial year to discuss the operations and business affairs of the Company. All directors attended all meetings.

The Board provides strategic direction to the Management of the Company and approves major investment decisions apart from fulfilling its statutory duties to ensure that the Group's strategies are in the interests of the Company and its shareholders. In addition, the Board has direct responsibility for decision making in respect of the following corporate events and actions: -

1. approval of results announcements;
2. approval of annual reports and accounts;
3. approval of budgets;
4. convening of shareholders' meetings; and
5. material acquisitions and disposal of assets.

CORPORATE GOVERNANCE

To facilitate effective management, certain functions of the Board have been delegated to various Board Committees. The Board is assisted by an Audit Committee ('AC'), a NC and a Remuneration Committee ('RC'), each of which has its own written terms of reference.

The Company provides ongoing education on board processes, governance practices and updates on changes to laws and regulations during board meetings. In addition, the Company has adopted a policy where Directors are encouraged to request for further explanations or informal discussions on any aspects of the Company's operations. The Chairman and Managing Director will make the necessary arrangements for the informal discussions or explanations as requested by the Directors.

ACCESS TO INFORMATION

PRINCIPLE 6: In order to fulfill their responsibilities, board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

The Board has unrestricted access to the company secretaries, the external auditors as well as the senior management of the Company. At least one Company Secretary attends all board meetings and is responsible for ensuring that board procedures and all other rules and regulations applicable to the Company are adhered to.

CHAIRMAN AND GROUP MANAGING DIRECTOR

PRINCIPLE 3: There should be a clear division of responsibilities at the top of the Company – the working of the Board and the executive responsibility of the Company's business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

The Chairman is the uncle of the Managing Director. Notwithstanding this, given the separate roles and responsibilities held by them, the Board is of the opinion that their relationship does not affect the independent and effective running of the Board. The Managing Director is responsible for daily management of the Group, whereas the Chairman plays an important role in steering the strategic direction of the Group.

The Chairman ensures that board meetings are held when necessary and sets the board meeting agenda in consultation with the Managing Director. The Chairman also reviews board papers before they are presented to the Board and ensures that board members are provided with complete, adequate and timely information. Management staff members who have prepared the papers or who can provide additional insight into the matters to be discussed are invited to present the paper or attend at the relevant time during the Board meeting.

BOARD MEMBERSHIP AND BOARD PERFORMANCE

PRINCIPLE 4: There should be a formal and transparent process for the appointment of new directors to the Board. As a principle of good corporate governance, all directors should be required to submit themselves for re-nomination and re-election at regular intervals.

PRINCIPLE 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

CORPORATE GOVERNANCE

Nominating Committee

A NC was formed on 13 February 2003 and is chaired by Mr Sim Beng Chye. The other members are Mr Chew Heng Ching and Mr Tan Choo Pie @ Tan Chang Chai.

The NC met once during the financial year and all its members attended the meeting.

The NC oversees the composition of the Board to ensure that they meet the composition and balance required under the Code.

The duties of the NC are as follows:

1. To review annually the independence of each director with reference to the criteria set out in the Code.
2. To review all nominations for new appointments and re-appointments of Directors and put forth their recommendations for approval by the Board.
3. To determine whether a director is able to and has been adequately carrying out his duties as a director of the Company, particularly, where a Director has multiple Board representations.

New Directors are at present appointed by way of a Board Resolution, after the NC has deliberated and recommended their appointments. These new Directors submit themselves for re-election by shareholders at the next Annual General Meeting ('AGM'). The Company's Articles of Association require one third of the Board to retire by rotation at every AGM. In addition, all Directors (other than the Managing Director) retire from office at least once every 3 years.

Remuneration Committee

PRINCIPLE 7: There should be a formal and transparent procedure for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

The RC has been reconstituted by the Board on 24 August 2006 and is chaired by Mr Chew Heng Ching. The other members are Mr Cheng Chang Rong and Mr Sim Beng Chye. Mr Sim Beng Chye was appointed a member of the RC on 24 August, 2006, to replace Mr Choo Heng Thong.

The RC met once during the financial year and all its members attended the meeting.

The RC has adopted a set of Terms of Reference which among others, include the following functions:

1. To review and recommend a framework of remuneration for the Chairman, Directors, members of senior management. The framework will cover director's fees, basic salaries, allowances, bonuses and benefits in kind.
2. To review the remuneration packages of all managerial staff that are related to any of the executive Directors; and
3. To oversee the administration of the Spindex Employees' Share Option Scheme ('ESOS').

No director or member of the RC is involved in deciding his own remuneration, except for providing information and documents specifically requested by the RC to assist in its deliberations.

The RC is able to obtain expert professional advice on remuneration matters as and when necessary.

The RC will review and recommend to the Board any grant of options to eligible employees pursuant to the ESOS. During the financial year, no options were granted to any employee.

CORPORATE GOVERNANCE

LEVEL AND MIX OF REMUNERATION

PRINCIPLE 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more for this purpose. A proportion of the remuneration, especially that of executive directors, should be linked to performance.

The RC will review and determine the remuneration packages for the Chairman and the Managing Director.

The Executive Directors have service agreements. The Service Agreements may be terminated by either the Company or the Executive Directors giving 6 months' written notice of termination to the other party. The RC is tasked to review and make recommendations on the terms of the service contracts.

Non-executive Directors have no service contracts and are paid Directors' fees. Directors' fees are determined by the full Board taking into consideration the remuneration framework adopted by the RC. Payment of Directors' fees is subject to approval of the Company at each AGM.

DISCLOSURE OF REMUNERATION

PRINCIPLE 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration, in the Company's annual report.

A breakdown of the remuneration of the Directors for the financial year ended 30 June 2006 are set out as below:

Remuneration of Directors for the financial year ended 30 June 2006

Name of Directors	Salary	Bonus	Directors' Fees	Total
\$500,000 and above NIL				
\$250,000 to \$499,999 Choo Heng Thong	82%	18%	–	100%
Below \$250,000 Tan Choo Pie @ Tan Chang Chai	82%	18%	–	100%
Chew Heng Ching	–	–	100%	100%
Sim Beng Chye	–	–	100%	100%
Chen Chang Rong	–	–	100%	100%

No Directors were granted options pursuant to the ESOS during the financial year ended 30 June 2006 .

Remuneration of Key Executives for financial year ended 30 June 2006

In view of the sensitive nature of the remuneration for the key management executives, the Board is of the opinion that the names of the key executives should not be disclosed in the Annual Report.

For the financial year ended 30 June 2006, all the 4 key executives are drawing remuneration of below \$250,000 per annum.

CORPORATE GOVERNANCE

At the present time, the Board is of the view that it is not necessary to present its remuneration policy to the shareholders for approval at the AGM.

There are no employees of the Group who are immediate family members of a director or the Managing Director and whose remuneration exceeds \$150,000 during the financial year ended 30 June 2006 .

Details on share options granted to the eligible employees pursuant to the ESOS are set out in the Directors' Report on page 22.

ACCOUNTABILITY AND AUDIT

PRINCIPLE 10: The Board is accountable to the shareholders while the Management is accountable to the Board.

The Board's primary role is to protect and enhance long-term value and returns for the shareholders. In the discharge of its duties to the shareholders, the Board, when presenting annual financial statements and announcements, seeks to provide the shareholders with a detailed analysis, explanation and assessment of the Group's financial position and prospects. Management currently provides the Board with appropriately detailed management accounts of the Group's performance, position and prospects on a regular basis.

Audit Committee

PRINCIPLE 11: The Board should establish an AC with written terms of reference which clearly set out its authority and duties.

The AC is chaired by Mr Chew Heng Ching. The other members are Mr Sim Beng Chye and Mr Chen Chang Rong. All members of the AC are independent Directors. The Board is of the opinion that the members of the AC have sufficient expertise and experience to discharge their duties.

The role of the AC is to assist the Board with discharging its responsibilities, maintaining adequate accounting records and developing and maintaining effective internal control systems. In addition to pursuing this goal, the AC will:

1. recommend to the Board the appointment or re-appointment of the external auditors;
2. review with the external auditors the audit plan and their evaluation of the system of internal accounting controls and monitor management's response and actions to correct any noted deficiencies;
3. review the scope and results of the audit and its cost effectiveness and the independence and objectivity of the external auditors;
4. determine that no unwarranted management restrictions are being placed upon the external auditors;
5. review of the internal audit program including the scope and results of the internal audit;
6. review the financial statements with Management and external auditors for submission to the Board; and
7. review interested person transaction.

The AC, having reviewed all non-audit services provided by the external auditors to the Group, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

The AC met 2 times during the financial year and all the members attended all the meetings. The members, together with the external auditors, met once in the absence of the Company's Management.

CORPORATE GOVERNANCE

INTERNAL CONTROLS AND INTERNAL AUDIT

PRINCIPLE 12: The Board should ensure that the Management maintains a sound system of internal controls to safeguard the shareholders' investments and the Company's assets.

PRINCIPLE 13: The Company should establish an internal audit function that is an independent of the activities it audits.

The AC has explicit authority to investigate any matter relating to the Group's accounting, auditing, internal controls and financial practices, with full access to and co-operation of the Management as well as full discretion to invite any director or executive director to attend its meetings and has been given reasonable resources to enable it to perform its functions properly. Both the internal and external auditors have unrestricted access to the AC.

Internal auditors, in the course of their audit, review the effectiveness of the Group's material internal controls. Material non-compliance, internal control weaknesses and key business risks noted the audit and alignment plans to address these risks and weaknesses are communicated to the Management accordingly and tabled for discussion at AC meetings with updates by the Management on the status of these action plans. The AC has reviewed and is satisfied that existing controls in the Group are adequate.

COMMUNICATION WITH SHAREHOLDERS

PRINCIPLE 14: Companies should engage in regular, effective and fair communication with shareholders.

PRINCIPLE 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

The Board of Directors is accountable to the shareholders while the management of the Company is accountable to the Board.

All announcements, half-year and full year financial results are released through SGX-ST. The Company has appointed an investor relations firm on a retainer basis, to communicate regularly with the analysts and they monitor the dissemination of material information to ensure that it is disclosed to the market in a timely manner.

All shareholders of the Company receive the Annual Report and notice of AGM. The notice is also advertised in the newspaper. At AGMs, shareholders are given the opportunity to air their views and ask Directors or Management questions regarding the Company. In addition, the external auditors and chairmen of the various Board committees are present and available to address questions.

The Articles of Association of the Company allow shareholders of the Company to appoint one or two proxies to attend and vote on their behalf.

CORPORATE GOVERNANCE

DEALINGS IN SECURITIES

The Company has issued an Internal Compliance Code on Securities Transactions to Directors and key employees of the Group (including employees with access to price-sensitive information on the Company's shares) which set out the code of conduct on transactions in the Company's shares by these persons, the implications of insider trading and guidance of such dealings. In line with Listing Rule 1207 (18) on Dealings in Securities issued by the SGX-ST, the Company issues circulars to its Directors and key employees informing that they should not deal in the Company's securities on short term considerations or deal in the securities of the Company one month before the release of the full-year results and two weeks before the release of quarterly results. Employees who attend management committee meetings have to observe the "closed window" periods.

The Board confirms that for the financial year ended 30 June 2006, the Company has complied with Listing Rule 1207(18) issued by the SGX-ST.

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DIRECTORS' REPORT

The directors are pleased to present their report to the members together with the audited consolidated financial statements of Spindex Industries Limited (the "Company") and its subsidiaries (collectively, the "Group") and the balance sheet, profit and loss account and statement of changes in equity of the Company for the financial year ended 30 June 2006.

Directors

The Directors of the Company in office at the date of this report are:

Tan Choo Pie @ Tan Chang Chai (Chairman)
 Choo Heng Thong (Managing Director)
 Chew Heng Ching
 Sim Beng Chye
 Chen Chang Rong

In accordance with Article 104 of the Company's Articles of Association, Mr. Tan Choo Pie @ Tan Chang Chai and Mr. Chew Heng Ching retires and being eligible, offer themselves for re-election.

Arrangements to enable Directors to acquire Shares or debentures

Except for the Spindex Employees' Share Option Scheme (the "Spindex ESOS"), neither at the end of nor at any time during the financial year was the Company a party, to any arrangement whose object is to enable Directors of the Company to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

Directors' interests in shares or debentures

The following Directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under Section 164 of the Companies Act, Cap. 50, an interest in shares of the Company and related corporations, as stated below:

Name of Director	Held in the name of directors as at		
	1 July 2005	30 June 2006	21 July 2006
The Company			
Ordinary shares of \$0.10 each			
Tan Choo Pie @ Tan Chang Chai	28,175,670	28,175,670	28,175,670
Choo Heng Thong	28,175,670	28,175,670	28,175,670
Chew Heng Ching	20,000	20,000	20,000
Sim Beng Chye	50,000	50,000	50,000

DIRECTORS' REPORT

Directors' interests in shares or debentures (cont'd)

By virtue of Section 7 of the Companies Act, Mr. Tan Choo Pie @ Tan Chang Chai and Mr. Choo Heng Thong are deemed to be interested in the shares held by the Company in all its subsidiaries.

Except as disclosed in this report, no Director of the Company who held office at the end of the financial year had an interest in the shares or debentures of any company in the Group either at the beginning or the end of the financial year or on 30 June 2006.

DIRECTORS' CONTRACTUAL BENEFITS

Except as disclosed in the financial statements, since the end of the previous financial year, no Director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest.

SHARE OPTIONS

At an Extraordinary General Meeting held on 28 March 2000, the shareholders of the Company approved the Spindex ESOS. The Spindex ESOS is administered by a committee comprising the following members:

Chew Heng Ching (Chairman)
Chen Chang Rong
Choo Heng Thong

Only confirmed full-time employees as well as Directors of the Company are eligible to receive options granted under the Spindex ESOS.

The aggregate number of ordinary shares subject to outstanding options granted under the Spindex ESOS will not at any time exceed 15% of the issued share capital of the Company. The exercise price of the options shall be determined by the Committee and fixed at:

- (i) a price (the "Market Price") equal to the average of the last dealt prices of the Company's shares, as determined by reference to the Financial News or other publications published by the SGX-ST for the 5 consecutive trading days immediately preceding the date of grant, rounded up to the nearest whole cent in the event of fractional prices; or
- (ii) a price which is set at a discount to the Market Price, provided that:
 - (a) the maximum discount shall not exceed 20% of the Market Price (or such other percentage or amount as may be determined by the Committee and permitted by the SGX-ST); and
 - (b) the Shareholders of the Company in general meeting shall have authorised the making of offers and grants of options under the Spindex ESOS at a discount not exceeding the maximum discount as aforesaid.

Where the exercise price as determined above is less than the par value of the share, the exercise price shall be the par value.

DIRECTORS' REPORT

Share Options (cont'd)

The exercise period of the option with exercise price at Market Price commences on the first anniversary of the date of grant while the exercise period for options with exercise price at a discount to the Market Price commences on the second anniversary of the date of grant. Options granted to Directors and employees expire on the tenth anniversary of the date of grant.

The following options were granted to employees under the Spindex ESOS:

Date of grant	Expiry date	Number of shares under options			As at 30 June 2006	Exercise price
		Aggregate options granted since commence- ment of plan to end of financial year	Aggregate options lapsed since commence- ment of plan to end of financial year	Aggregate options exercised since commence- ment of plan to end of financial year		
5 March 2001	4 March 2011	1,875,000	469,000	1,365,000	41,000	\$0.24
1 October 2003	30 September 2013	2,161,000	664,000	–	1,497,000	\$0.49

None of the Directors and controlling shareholders were granted options under the Spindex ESOS and no participants received 5% or more of the total number of options available under the Spindex ESOS.

During the financial year, there were no options granted by the Company or its subsidiaries to any person to take up unissued shares in the Company or any subsidiaries. Other than as disclosed above, there were no other shares issued by virtue of the exercise of options to take up unissued shares of the Company or any subsidiaries.

Except as disclosed above, there were no unissued shares of the Company or of any subsidiaries under option at the end of the financial year.

Audit Committee

The Audit Committee performed the functions specified in the Companies Act, Cap 50 and the Listing Manual of the Singapore Exchange Securities Trading Limited as detailed in the Report on Corporate Governance.

Other information required by the Singapore Exchange Securities Trading Limited

No material contracts to which the Company or any subsidiary, is a party and which involve Directors' interests subsisted at the end of the financial year, or have been entered into since the end of the previous financial year.

DIRECTORS' REPORT

Auditors

Ernst & Young have expressed their willingness to accept reappointment as auditors of the Company.

On behalf of the Board of Directors,

Tan Choo Pie @ Tan Chang Chai
Director

Choo Heng Thong
Director

Singapore
13 September 2006

STATEMENTS BY DIRECTORS

We, Tan Choo Pie @ Tan Chang Chai and Choo Heng Thong, being two of the Directors of Spindex Industries Limited, do hereby state that, in the opinion of the Directors,

- (i) the accompanying balance sheets, profit and loss accounts, statements of changes in equity and consolidated cash flow statement together with notes thereto, set out on pages 26 to 64 are drawn up so as to give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and the results and changes in equity of the Company and of the Group and the cash flows of the Group for the year then ended; and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the Board of Directors,

Tan Choo Pie @ Tan Chang Chai
Director

Choo Heng Thong
Director

Singapore
13 September 2006

AUDITORS' REPORT

We have audited the accompanying financial statements of Spindex Industries Limited (the "Company") and its subsidiaries (the "Group") set out on pages 26 to 64 for the year ended 30 June 2006. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion,

(a) the consolidated financial statements of the Group and the balance sheet, profit and loss account and statements of changes in equity of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 30 June 2006 and the results and changes in equity of the Company and of the Group and the cash flows of the Group for the financial year then ended; and

(b) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

ERNST & YOUNG
Certified Public Accountants

Singapore
13 September 2006

BALANCE SHEETS

As at 30 June 2006

(Amounts expressed in Singapore Dollars)

	Note	Group		Company	
		2006 \$'000	2005 \$'000 (Restated)	2006 \$'000	2005 \$'000 (Restated)
ASSETS LESS LIABILITIES					
Property, plant and equipment	3	29,092	30,456	10,311	12,171
Subsidiaries	4	–	–	12,169	8,704
Deferred tax asset	5	238	344	61	44
Current assets					
Stocks	6	7,044	6,566	1,809	1,888
Trade debtors	7	13,017	11,936	5,005	5,405
Other debtors and deposits	8	359	491	589	387
Prepayments		461	386	97	101
Tax recoverable		331	555	–	–
Due from subsidiaries (trade)		–	–	4,566	2,096
Due from subsidiaries (non-trade)	9	–	–	2,410	3,713
Fixed deposits	10	1,280	354	1,280	–
Cash and bank balances	10	10,063	5,747	2,323	2,084
		32,555	26,035	18,079	15,674
Current liabilities					
Trade creditors	11	9,486	6,860	4,067	2,863
Other creditors and accruals	12	4,482	3,554	2,098	1,805
Provision for defects	13	356	222	126	112
Due to subsidiaries (trade)		–	–	2,778	427
Due to subsidiaries (non-trade)	9	–	–	15	–
Short term loan	14	1,000	500	1,000	500
Long term loans - current portion	15	929	1,645	929	1,525
Provision for tax		357	371	273	296
Deferred income		22	–	22	–
		16,632	13,152	11,308	7,528
Net current assets		15,923	12,883	6,771	8,146
Non-current liabilities					
Long term loans - non-current portion	15	995	531	995	531
Deferred tax liability	16	2,263	2,564	1,729	1,994
Deferred income		67	–	67	–
Provision for restoration costs		80	–	–	–
		3,405	3,095	2,791	2,525
Net assets		41,848	40,588	26,521	26,540
Equity attributable to equity holders of the Company					
Share capital	17	13,145	11,536	13,145	11,536
Reserves	18	28,703	29,052	13,376	15,004
Total equity		41,848	40,588	26,521	26,540

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

PROFIT AND LOSS ACCOUNT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

	Note	Group		Company	
		2006 \$'000	2005 \$'000 (Restated)	2006 \$'000	2005 \$'000 (Restated)
Turnover	19	55,786	48,059	28,369	26,397
Cost of sales		(45,966)	(39,211)	(23,748)	(22,157)
<hr/>					
Gross profit		9,820	8,848	4,621	4,240
Other operating income	20	824	691	437	772
Distribution and selling expenses		(940)	(784)	(242)	(298)
Administrative expenses		(6,879)	(6,770)	(4,229)	(4,402)
<hr/>					
Profit from operations	21	2,825	1,985	587	312
Financial expenses	24	(136)	(128)	(135)	(111)
<hr/>					
Profit before tax		2,689	1,857	452	201
Income tax	25	(470)	(356)	(156)	(4)
<hr/>					
Net profit attributable to equity holders of the Company		2,219	1,501	296	197
<hr/> <hr/>					
Earnings per share (cents)					
- Basic	26	1.92	1.30		
- Diluted	26	1.92	1.30		

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

Year Ended 30 June 2006

Group	Attributable to equity holders of the Company							Total equity \$'000
	Share capital \$'000	Share premium \$'000	Share option reserve \$'000	Foreign currency translation reserve \$'000	Reserve fund \$'000	Accumulated profit \$'000	Total reserves \$'000	
At 1 July 2004	11,536	1,609	-	8	1,180	25,786	28,583	40,119
- as previously reported	-	-	143	-	-	(143)	-	-
- effects of adopting FRS102	11,536	1,609	143	8	1,180	25,643	28,583	40,119
Net profit for the year	-	-	214	-	-	1,501	1,715	1,715
- as previously reported	-	-	-	-	-	1,715	1,715	1,715
- effects of adopting FRS102	-	-	214	-	-	(214)	-	-
- as restated	-	-	214	-	-	1,501	1,715	1,715
Net effect of exchange differences	-	-	-	(323)	-	-	(323)	(323)
Total recognised income and expenses for the year	-	-	214	(323)	-	1,501	1,392	1,392
Appropriation (from)/to accumulated profits/reserve fund	-	-	-	-	150	(150)	-	-
Dividends on ordinary shares	-	-	-	-	-	(923)	(923)	(923)
At 30 June 2005	11,536	1,609	357	(315)	1,330	26,071	29,052	40,588
At 1 July 2005	11,536	1,609	-	(315)	1,330	26,428	29,052	40,588
- as previously reported	-	-	357	-	-	(357)	-	-
- effects of adopting FRS 102	11,536	1,609	357	(315)	1,330	26,071	29,052	40,588
Net profit for the year	-	-	-	(644)	-	2,219	2,219	2,219
Net effect of exchange differences	-	-	-	(644)	-	-	(644)	(644)
Total recognised income and expenses for the year	-	-	-	(644)	-	2,219	1,575	1,575
Cost of share based payment	-	-	54	-	-	-	54	54
Appropriation (from)/to reserve fund/accumulated profits	-	-	-	-	117	(117)	-	-
Dividends on ordinary shares	-	-	-	-	-	(369)	(369)	(369)
Transfer of share premium to share capital account	1,609	(1,609)	-	-	-	-	(1,609)	-
At 30 June 2006	13,145	-	411	(959)	1,447	27,804	28,703	41,848

* 5,000 shares amounted to \$500 issued during the immediately preceding financial year was not presented in the statement of changes in equity.

(Amounts expressed in Singapore Dollars)

STATEMENT OF CHANGES IN EQUITY

Year Ended 30 June 2006

Statements of Changes in Equity (cont'd)

Company	Attributable to equity holders of the Company							Total equity \$'000
	Share capital \$'000	Share premium \$'000	Share option reserve \$'000	Foreign currency translation reserve \$'000	Reserve fund \$'000	Accumulated profit \$'000	Total reserves \$'000	
At 1 July 2004	11,536	1,609	-	-	-	13,879	15,488	27,024
- as previously reported	-	-	143	-	-	(115)	28	28
- effects of adopting FRS 102	11,536	1,609	143	-	-	13,764	15,516	27,052
- as restated	-	-	214	-	-	197	411	411
Net profit for the year	-	-	-	-	-	370	370	370
- as previously reported	-	-	214	-	-	(173)	41	41
- effects of adopting FRS 102	-	-	214	-	-	197	411	411
- as restated	-	-	-	-	-	(923)	(923)	(923)
Dividends on ordinary shares	-	-	-	-	-	-	-	-
At 30 June 2005	11,536	1,609	357	-	-	13,038	15,004	26,540
At 1 July 2005	11,536	1,609	-	-	-	13,327	14,936	26,472
- as previously reported	-	-	357	-	-	(289)	68	68
- effects of adopting FRS 102	11,536	1,609	357	-	-	13,038	15,004	26,540
- as restated	-	-	-	-	-	296	296	296
Net profit for the year	-	-	54	-	-	-	54	54
Cost of share based payments	-	-	-	-	-	(369)	(369)	(369)
Dividends on ordinary shares	-	-	-	-	-	-	-	-
Transfer of share premium to share capital account	1,609	(1,609)	-	-	-	-	(1,609)	-
At 30 June 2006	13,145	-	411	-	-	12,965	13,376	26,521

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

	2006 \$'000	2005 \$'000 (Restated)
Cash flows from operating activities		
Profit before tax	2,689	1,857
Adjustments for:		
Depreciation of property, plant and equipment (Note 3)	4,130	4,197
Gain on disposal of property, plant and equipment	–	(2)
Interest expense	136	128
Interest income	(110)	(71)
Allowance for stocks obsolescence	614	47
Write-back of allowance for stocks obsolescence	(194)	(21)
Stocks written off	118	58
Allowance for doubtful debts	40	–
Write-back of allowance for doubtful debts	(55)	–
Provision for defects	160	20
Write-back of provision for defects	(24)	(37)
Deferred income	89	–
Share-based expenses	54	214
Operating profit before working capital changes	7,647	6,390
(Increase) decrease in:		
Stocks	(1,050)	(1,781)
Trade debtors	(1,148)	(1,730)
Other debtors, deposits and prepayments	268	(345)
(Decrease) increase in:		
Trade creditors	2,566	1,285
Other creditors and accruals	910	(481)
Cash generated from operations	9,193	3,338
Income tax paid	(776)	(972)
Tax refund	257	–
Dividends paid	(369)	(923)
Interest paid	(136)	(128)
Interest received	110	71
Net cash generated from operating activities	8,279	1,386
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	–	2
Purchase of property, plant and equipment	(3,205)	(4,626)
Net cash used in investing activities	(3,205)	(4,624)
Cash flows from financing activities		
Proceeds from additional term loans	2,155	500
Repayment of term loans	(1,907)	(2,770)
Net cash generated from/(used in) financing activities	248	(2,270)
Net increase/(decrease) in cash and cash equivalents	5,322	(5,508)
Cash and cash equivalents at beginning of year	6,101	11,734
Currency alignment on opening cash balances	(80)	(125)
Cash and cash equivalents at end of year (Note 10)	11,343	6,101

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

1. Corporation information

Spindex Industries Limited (the "Company") is a limited liability company, which is incorporated and domiciled in Singapore. The Company is listed on the Singapore Exchange Securities Trading Limited.

The registered office and principal place of business of the Company is located at 6 Neythal Road, Singapore 628573.

The principal activities of the Company are to carry on the business as manufacturer, importer, exporter and dealer of mechanical, electrical and electronic parts. The principal activities of the subsidiaries are manufacturing and trading of mechanical, electrical, electronic parts, precision machine parts and other engineering materials.

Details of these subsidiaries are disclosed in Note 4 to the financial statements.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group and the balance sheet, profit and loss account and statement of changes in equity of the Company have been prepared in accordance with Singapore Financial Reporting Standards (FRS) as required by the Singapore Companies Act, Cap. 50.

The financial statements have been prepared on a historical cost basis except for land and buildings, investment properties, derivative financial instruments and held for trading and available-for-sale financial assets that have been measured at their fair values.

The financial statements are presented in Singapore Dollars (SGD or \$) and all values are rounded to the nearest thousand (\$'000) except when otherwise indicated.

2.2 Changes in accounting policies

The accounting policies have been consistently applied by the Group and the Company and are consistent with those used in the previous financial year, except for the changes in accounting policies discussed below :

(a) Adoption of new FRS

On 1 July 2005, the Group and the Company adopted the following standards mandatory for annual financial periods beginning on or after 1 January 2005.

- FRS 39, Financial Instruments : Recognition and Measurement
- FRS 102, Share-based Payment

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.2 *Changes in accounting policies* (cont'd)

Arising from the adoption of these FRS, comparative numbers have been amended where required, in accordance with the relevant provisions in the respective FRS and the impact of changes in accounting policies are disclosed below.

(i) FRS 39 – Financial Instruments: Recognition and Measurement

FRS 39 requires all financial assets and liabilities to be appropriately categorised from initial recognition and for the designation to be re-measured at every reporting date. The adoption of FRS 39 has resulted in the Group measuring its loans and receivables and financial liabilities at amortised cost using the effective interest rate method. Accordingly, there was no material impact on the current year's financials as a result of adoption of this standard.

(ii) FRS 102 – Share-based Payment

The main impact of FRS 102 on the Group and the Company is the recognition of an expense and a corresponding entry to equity for share options granted to senior executives and general employees.

The Group and the Company have applied FRS 102 retrospectively and have taken advantage of the transitional provisions of FRS 102 in respect of equity-settled awards.

As a result, the Group and the Company have applied FRS 102 to options granted in 2003 under the Spindex Employees' Share Option Scheme which fulfilled the condition of equity-settled awards granted after 22 November 2002 that had not vested on 1 July 2005.

Under the transitional provision of FRS102, the change in accounting policy has resulted in the following :

	Increase/(decrease)	
	2006	2005
	\$'000	\$'000
The Group		
At 1 July		
- share option reserve	214	143
- revenue reserve	(214)	(143)
For the year ended 30 June	(54)	(214)
- profit for the year		
EPS	Restated	2005
- Base	1.30	1.49
- Diluted	1.30	1.49
The Company		
At 1 July		
- share option reserve	214	143
- revenue reserve	(173)	(116)
For the year ended 30 June		
- profit for the year	(54)	(214)

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.2 **Changes in accounting policies** (cont'd)

(b) Adoption of revised FRS

In addition, the Group adopted the following revised standards which did not result in any significant change in accounting policies:

FRS 2 (revised)	–	Inventories
FRS 8 (revised)	–	Accounting Policies, Changes in Accounting Estimates and Errors
FRS 10 (revised)	–	Events after the Balance Sheet Date
FRS 16 (revised)	–	Property, Plant and Equipment
FRS 17 (revised)	–	Leases
FRS 21 (revised)	–	The Effects of Changes in Foreign Exchange Rates
FRS 24 (revised)	–	Related Party Disclosures
FRS 27 (revised)	–	Consolidated and Separate Financial Statements
FRS 32 (revised)	–	Financial Instruments: Disclosure and Presentation
FRS 33 (revised)	–	Earnings Per Share

(c) FRS and Interpretation of Financial Reporting Standard ("INT FRS") not yet effective

The Group has not applied the following FRS and INT FRS that have been issued but are not effective for annual financial periods beginning on or after 1 July 2005.

Beginning on or after 1 December 2005

- (i) INT FRS 106 – Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

This interpretation is not expected to be relevant to the activities of the Group.

Beginning on or after 1 January 2006

- (i) FRS 19 (revised) – Employee Benefit

This standard is not expected to have any material impact on the financial statements in the period of initial application.

- (ii) FRS 106 – Exploration for and Evaluation of Mineral Resources

This standard does not apply to the activities of the Group.

- (iii) INT FRS 104 – Determining Whether an Arrangement Contains a Lease

This interpretation requires the determination of whether an arrangement is, or contains a lease to be based on the substance of the arrangement and requires an assessment of whether the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. The Group expects that the adoption of this pronouncement will have no significant impact on the financial statements in the period of initial application.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.2 **Changes in accounting policies** (cont'd)

- (iv) INT FRS 105 – Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

This interpretation is not expected to be relevant to the activities of the Group.

Beginning on or after 1 March 2006

- (i) INT FRS 107 – Applying the Restatement Approach under FRS 29, Financial Reporting in Hyperinflationary Economies

This interpretation is not expected to be relevant to the activities of the Group.

Beginning on or after 1 January 2007

- (i) FRS 107 – Financial Instruments: Disclosures

This standard requires quantitative disclosures of nature and extent of risks arising from financial instruments in addition to the disclosures currently required under FRS 32 – Financial Instruments: Presentation. Adoption of this standard will result in additional disclosures in the financial statements.

- (ii) FRS 40 – Investment Property

This standard does not apply to the activities of the Group.

2.3 **Significant accounting estimates and judgements**

Estimates, assumptions concerning the future and judgements are made in the preparation of the financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances.

- (a) Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- Depreciation of plant and equipment

Plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 3 to 10 years. The carrying amount of the Group's plant and equipment at 30 June 2006 was \$17,396,000 (2005: \$19,172,000). Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.3 **Significant accounting estimates and judgements** (cont'd)

- Income taxes

Significant judgement is involved in determining the group-wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax asset and tax liability at 30 June 2006 were \$238,000 and \$2,620,000 (2005: \$344,000 and \$2,935,000) respectively.

- (b) Critical judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made certain judgements, apart from those involving estimations, which have significant effect on the amounts recognised in the financial statements.

- Impairment of investments and financial assets

The Group and the Company follow the guidance of FRS 36 and FRS 39 on determining when an investment or financial asset is other-than-temporary impaired. This determination requires significant judgement, the Group and the Company evaluate, among other factors, the duration and extent to which the fair value of an investment or financial asset is less than its cost; and the financial health of and near-term business outlook for the investment or financial asset, including factors such as industry and Group performance, changes in technology and operational and financing cash flow.

2.4 **Principles of consolidation**

The consolidated financial statements comprise the accounts of Spindex Industries Limited (the Company) and its subsidiaries, after the elimination of all material intercompany transactions and resulting unrealized profits. Unrealised losses resulting from intragroup transactions are also eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date the Company obtains control until such time as control ceases. Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to conform any dissimilar material accounting policies that may exist.

Subsidiaries

A subsidiary is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

Investment in subsidiaries is stated in the financial statements of the Company at cost and provision is made for impairment in values. An assessment of investment in subsidiaries is performed where there is indication that the asset has been impaired or the impairment losses recognised in the prior year no longer exist.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.5 **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment loss. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition for its intended use. Expenditure for additions, improvements and renewals are capitalised and expenditure for maintenance and repairs are charged to the profit and loss account. When assets are sold or retired, their cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from their disposal is included in the profit and loss account.

Depreciation

Freehold land has an unlimited useful life and therefore is not depreciated.

Depreciation is calculated on the straight line method to write off the cost of property, plant and equipment over their estimated useful lives. The estimated useful lives of property, plant and equipment are as follows:

Factory building - freehold	50 years
Leasehold land and buildings	25 - 40 years
Leasehold improvements	3 - 5 years
Plant and machinery	5 - 10 years
Furniture and fittings	6 years
Motor vehicles	6 years
Office equipment	3 - 6 years
Quality control equipment	5 years
Warehouse equipment	5 - 6 years

Fully depreciated property, plant and equipment are retained in the financial statements until they are no longer in use and no further charge for depreciation is made in respect of these assets.

The carrying amounts of the Group's and Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. All impairment losses are recognised in the profit and loss account whenever the carrying amount of an asset exceeds its recoverable amount.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased. The reversal is recorded in income or as a revaluation increase. However, the increased carrying amount of an asset due to a reversal of an impairment loss is recognised to the extent it does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for that asset in prior years.

2.6 **Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. an intangible asset with an indefinite useful life, an intangible asset not yet available for use, or goodwill acquired in a business combination) is required, the Group makes an estimate of the asset's recoverable amount.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.6 **Impairment of non-financial assets** (cont'd)

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account as 'impairment losses' or treated as a revaluation decrease for assets carried at revalued amount to the extent that the impairment loss does not exceed the amount held in the asset revaluation reserve for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account unless the asset is carried at revalued amount, in which case the reversal in excess of impairment loss previously recognised through the profit and loss account is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

The Group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

2.7 **Stocks**

Stocks are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost, freight and other transportation and incidental costs on a weighted average basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

When stocks are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of stocks are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of stocks, arising from an increase in net realisable value, is recognised as a reduction in the amount of stocks as an expense in the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.8 **Cash and cash equivalents**

Cash and cash equivalents are defined as cash on hand, fixed deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in values.

Cash on hand and in banks and short-term deposits which are held to maturity are carried at cost.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash on hand and in banks and fixed deposits.

2.9 **Trade and other receivables**

Trade and other receivables, including amounts due from subsidiaries are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.12 below.

2.10 **Financial assets**

Financial assets within the scope of FRS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. Financial assets are recognised on the balance sheet when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

2.11 **Derecognition of financial assets and liabilities**

(a) Financial assets

A loan and receivable is derecognised where the contractual rights to receive cash flows from the asset have expired which usually coincides with receipts of payments for the asset.

On derecognition, the difference between the carrying amount and the sum of the consideration received is recognised in the profit and loss account.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.11 **Derecognition of financial assets and liabilities** (cont'd)

(b) Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2.12 **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the income and expenditure statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income and expenditure statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

2.13 **Trade and other payables**

Liabilities for trade, other creditors and payables to related parties are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognised as well as through the amortisation process.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.14 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where applicable, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provision for defects is recognised for all products under warranty at the balance sheet date based on past experience of the level of repairs and returns.

2.15 Borrowings

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalised until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowings.

Borrowings are subsequently measured at amortised cost using the effective interest rate method. The difference between net proceeds and redemption value is recognised in the profit and loss account over the life of the borrowings.

2.16 Employee benefits

(i) Defined contribution plans

The Group participates in the national pension schemes as defined by the laws of the countries in which it has operations. In particular, the Company makes contributions to the Central Provident Fund scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

For the subsidiaries incorporated in the People's Republic of China ("PRC"), pursuant to PRC laws and regulations, contribution to the basic old age insurance for the subsidiaries' local staff are to be made monthly to a government agency based on 30.5% (2005: 30.5%) of the standard salary set by the province government, of which 22.5% (2005: 22.5%) are borne by the subsidiaries and the remaining are borne by the staff. The government agency is responsible for the pension liabilities relating to such staff upon their retirement. The subsidiaries accounts for these contributions on an accrual basis. The subsidiaries has no obligation for the payment of pension benefits beyond the contribution described above.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.16 **Employee benefits** (cont'd)

(ii) *Employee leave entitlement*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for leave as a result of services rendered by employees up to balance sheet date.

(iii) *Employee share option scheme*

Employees (including senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for share options ('equity-settled transactions').

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which the share options are granted. In valuing the share options, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company.

The cost of equity-settled transactions is recognised, together with a corresponding increase in the employee share option reserve, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

The Group has taken advantage of the transitional provisions of FRS 102 in respect of equity-settled awards and has applied FRS 102 only to equity-settled awards granted after 22 November 2002 that had not vested on or before 1 July 2005.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately.

2.17 **Operating leases**

Leases where the lessor effectively retains substantially all the risks and rewards of ownership of the leased item, are classified as operating leases. Operating lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the lease term.

The aggregate benefit of incentives provided by the lessor is recognised as a reduction of rental expense over the lease term on a straight-line basis.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.18 Revenue recognition

Revenue from sale of goods is recognised net of goods and services tax and discounts upon the transfer of risk and rewards which generally coincides with delivery and acceptance of the goods sold.

Dividend income is recognised when the shareholders' right to receive the payment is established.

Interest income is recognised as the interest accrues unless collectibility is in doubt.

2.19 Grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the income and expenditure statement over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the balance sheet and is amortised to the income and expenditure statement over the expected useful life of the relevant asset by equal annual instalments.

Government grants and contributions from other organisations utilised for the purchase/construction of depreciable assets are taken to the deferred capital grants account.

Deferred capital grants are recognised in the income and expenditure statement over the period necessary to match the depreciation of the assets purchased with the related grants. Upon disposal of property, plant and equipment, the balance of the related deferred capital grants is recognised in the income and expenditure statement to match the net book value of the assets written-off.

Government grants to meet the current year's operating expenses are recognised as income in the financial year in which the operating expenses are incurred.

Grants relating to tax rebates received from the People Republic of China ("PRC") government for the Company re-investment of its' subsidiaries profits is recognised as deferred income on the balance sheet. The balances is amortised to the profit and loss account over the required period to maintain the reinvestment in the PRC.

2.20 Income tax

(a) Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

(b) Deferred tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

2.20 **Income tax** (cont'd)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income tax relating to items recognised directly in equity is recognised in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

(c) *Goods and service tax*

Revenues, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

2.21 **Derivative financial instruments**

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments (if any) are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivative financial instruments that do not qualify for hedge accounting are taken to the profit and loss account for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

2.22 **Segments**

For management purposes, the Group is organised on a world-wide basis into major product categories. The product categories are the basis on which the Group reports its primary segment information.

Further details are provided in Note 29 of the financial statements.

2.33 **Functional and foreign currency**

(a) **Functional currency**

The management has determined the currency of the primary economic environment in which the Company operates i.e. functional currency, to be SGD. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuation in SGD.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

(b) **Foreign currency transactions**

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the closing rate of exchange ruling at the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the balance sheet date are recognised in the profit and loss account except for exchange differences arising on monetary items that form part of the Group's net investment in foreign subsidiaries, which are recognised initially in a separate component of equity as foreign currency translation reserve in the consolidated balance sheet and recognised in the consolidated profit and loss account on disposal of the subsidiary. In the Company's separate financial statements, such exchange differences are recognised in the profit and loss account.

(c) **Foreign currency translation**

The results and financial position of foreign operations are translated into SGD using the following procedures:

- Assets and liabilities for each balance sheet presented are translated at the closing rate ruling at that balance sheet date; and
- Income and expenses for each income statement are translated at average exchange rates for the year, which approximates the exchange rates at the dates of the transactions.

All resulting exchange differences are recognised in a separate component of equity as foreign currency translation reserve.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

3. Property, plant and equipment

(a) Group	Freehold land		Factory building - freehold land		Leasehold land and buildings		Leasehold improvements		Plant and machinery		Furniture and fittings		Motor vehicles		Office equipment		Quality control equipment		Warehouse equipment		Construction-in-progress		Total \$'000
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Cost																							
At 1.7.2004	1,377	2,389	9,281	754	42,485	669	725	1,695	421	1,968	-	61,764											
Additions	-	-	-	206	2,644	167	-	416	165	131	897	4,626											
Retirements	-	-	-	-	(2,922)	(27)	-	(85)	(8)	(123)	-	(3,165)											
Exchange difference on translation	(23)	(41)	(83)	(13)	(220)	(2)	(4)	(11)	2	(9)	9	(395)											
At 1.7.2005	1,354	2,348	9,198	947	41,987	807	721	2,015	580	1,967	906	62,830											
Additions	-	-	1,058	15	1,838	8	101	140	4	41	-	3,205											
Retirements	-	-	-	-	(1,657)	-	-	(121)	(42)	(7)	-	(1,827)											
Reclassification	-	-	888	-	-	-	-	-	-	-	(888)	-											
Exchange difference on translation	(30)	(52)	(145)	(15)	(384)	(3)	(6)	(26)	(3)	(16)	(18)	(698)											
At 30.6.2006	1,324	2,296	10,999	947	41,784	812	816	2,008	539	1,985	-	63,510											
Accumulated depreciation																							
At 1.7.2004	-	215	2,411	475	24,286	468	551	1,113	305	1,700	-	31,524											
Charge for the year	-	47	304	35	3,177	65	97	278	34	160	-	4,197											
Retirements	-	-	-	-	(2,924)	(27)	-	(83)	(8)	(123)	-	(3,165)											
Exchange difference on translation	-	(3)	(7)	(8)	(144)	(1)	(3)	(8)	-	(8)	-	(182)											
At 1.7.2005	-	259	2,708	502	24,395	505	645	1,300	331	1,729	-	32,374											
Charge for the year	-	47	345	39	3,111	69	66	275	54	124	-	4,130											
Retirements	-	-	-	-	(1,657)	-	-	(121)	(42)	(7)	-	(1,827)											
Exchange difference on translation	-	(7)	(12)	(11)	(194)	(2)	(4)	(16)	-	(13)	-	(259)											
At 30.6.2006	-	299	3,041	530	25,655	572	707	1,438	343	1,833	-	34,418											
Net book value																							
At 30.6.2006	1,324	1,997	7,958	417	16,129	240	109	570	196	152	-	29,092											
At 30.6.2005	1,354	2,089	6,490	445	17,592	302	76	715	249	238	906	30,456											

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

3. Property, plant and equipment (cont'd)

(b) Company	Leasehold land and buildings							Motor vehicles	Furniture and fittings	Plant and machinery	Office equipment	Quality control equipment	Warehouse equipment	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000							
Cost														
At 1.7.2004	4,748	20,667	400	497	1,011	390	908						28,621	
Additions	143	22	164	—	25	7	28						389	
Retirements	—	(2,295)	(27)	—	(76)	(8)	(123)						(2,529)	
At 1.7.2005	4,891	18,394	537	497	960	389	813						26,481	
Additions	—	16	—	—	66	1	—						83	
Retirements	—	(934)	—	—	(110)	(42)	—						(1,086)	
At 30.6.2006	4,891	17,476	537	497	916	348	813						25,478	
Accumulated depreciation														
At 1.7.2004	1,989	10,009	270	388	723	305	515						14,199	
Charge for the year	194	1,446	50	70	133	27	97						2,017	
Retirements	—	(1,674)	(27)	—	(74)	(8)	(123)						(1,906)	
At 1.7.2005	2,183	9,781	293	458	782	324	489						14,310	
Charge for the year	197	1,339	59	39	94	26	87						1,841	
Retirements	—	(834)	—	—	(108)	(42)	—						(984)	
At 30.6.2006	2,380	10,286	352	497	768	308	576						15,167	
Net book value														
At 30.6.2006	2,511	7,190	185	—	148	40	237						10,311	
At 30.6.2005	2,708	8,613	244	39	178	65	324						12,171	

(c) As at 30 June 2006, the Company and the subsidiary incorporated in Malaysia, Syntnum (M) Sdn. Bhd., have certain plant and machinery with net book values of approximately \$4,052,697 and \$113,050 (2005: \$4,688,475 and \$158,461) respectively, that have been pledged to secure the Company's banking facilities as stated in Note 15 to the financial statements.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

4. Subsidiaries

(a) Subsidiaries comprise:

	Company	
	2006 \$'000	2005 \$'000
Unquoted equity shares:		
Cost at beginning of year	8,704	5,627
Investment made during the year	3,465	3,077
Cost at end of year	12,169	8,704

(b) The Company had the following subsidiaries as at 30 June.

Name of subsidiary	Principal activities	Country of incorporation and place of business	Percentage of equity held by the Group		Cost of investment	
			2006	2005	2006	2005
			%	%	\$'000	\$'000
Synturn (M) Sdn. Bhd.+	Manufacturing and trading of precision machine parts and other engineering materials	Malaysia	100	100	1,304	1,304
Spindex Precision Engineering (Shanghai) Co., Ltd.#	Manufacturing and trading of mechanical, electrical and electronic parts	People's Republic of China	100	100	4,323	4,323
Spindex Precision Engineering (Suzhou) Co., Ltd #	Manufacturing and trading of mechanical, electrical and electronic parts	People's Republic of China	100	100	3,569	2,562
Spindex Industries (Hanoi) Co., Ltd. #	Manufacturing and trading of mechanical, electrical and electronic parts	Vietnam	100	100	2,973	515
					12,169	8,704

+ Audited by Ernst & Young affiliate firms.

Audited by other auditors.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

4. Subsidiaries (cont'd)

(b) The Company had the following subsidiaries as at 30 June. (cont'd)

During the financial year, additional cost of investments amounting to \$1,007,000 and \$2,458,000 were made by the Company in its subsidiaries, Spindex Precision Engineering (Suzhou) Co., Ltd and Spindex Industries (Hanoi) Co., Ltd. respectively.

5. Deferred tax assets

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Provisions and other temporary differences	238	344	61	44

6. Stocks

Finished goods				
- at cost	1,687	1,907	523	640
- at net realisable value	382	303	160	73
Work-in-progress, at cost	2,617	1,600	405	520
Raw materials				
- at cost	2,078	2,278	568	528
- at net realisable value	275	443	148	127
Goods-in-transit, at cost	5	35	5	-
Total stocks at lower of cost and net realisable value	7,044	6,566	1,809	1,888

During the financial year, the Group wrote down \$118,000 (2005 : \$58,000) of stocks which are recognised as expenses in the profit and loss account.

7. Trade debtors

Trade debtors	13,057	11,991	5,022	5,460
Less : allowance for doubtful debts	(40)	(55)	(17)	(55)
	13,017	11,936	5,005	5,405

Movements in allowance for doubtful debts during the year are as follows:

At beginning of year	55	139	55	139
Allowance for the year	40	-	17	-
Write-off against allowance	-	(84)	-	(84)
Write-back of allowance	(55)	-	(55)	-
At end of year	40	55	17	55

Trade debtors are non-interest bearing and are generally on 30-90 days credit terms. They are recognised at their original amounts which represent their fair values on initial recognition.

As at 30 June 2006 \$8,182,000 (2005 : \$7,689,000) are denominated in US dollars.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

8 Other debtors and deposits

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other debtors	218	452	589	387
Deposits	141	39	–	–
	<u>359</u>	<u>491</u>	<u>589</u>	<u>387</u>

9. Due from/to subsidiaries (non-trade)

These balances are unsecured, interest free and are repayable within the next twelve months.

10. Cash and cash equivalents

Cash and cash equivalents comprises:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other debtors	1,280	354	1,280	–
Deposits	10,063	5,747	2,323	2,084
	<u>11,343</u>	<u>6,101</u>	<u>3,603</u>	<u>2,084</u>

Cash and bank balances of the Group amounting to \$148,160 (2005: \$120,000) are pledged to a bank to secure banking facilities.

The fixed deposits earn interest at 4.5% to 5.1% (2005 : 0.5% to 3%) per annum. The average tenure of fixed deposits is 1 month.

As at 30 June 2006, the following amounts are included in cash and cash equivalents, which are not denominated in the functional currency of the respective companies in the Group :

	Group	
	2006 \$'000	2005 \$'000
Denominated in :		
United States dollars	<u>5,631</u>	<u>3,868</u>

11. Trade creditors

Trade creditors are non-interest bearing and are normally settled on 30 – 90 days terms.

Included in trade creditors of the Group and of the Company is an amount of \$3,362,000 (2005 : \$1,920,000) denominated in US dollars.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

12. Other creditors and accruals

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other creditors	1,479	979	430	107
Accrued operating expenses	1,673	1,346	828	959
Accrued payroll benefits	1,330	1,229	840	739
	<u>4,482</u>	<u>3,554</u>	<u>2,098</u>	<u>1,805</u>

13. Provision for defects

At beginning of year	222	241	112	140
Provision for the year	160	20	14	–
Write-back of provision	(24)	(37)	–	(28)
Exchange difference on translation	(2)	(2)	–	–
At end of year	<u>356</u>	<u>222</u>	<u>126</u>	<u>112</u>

A provision is recognised for expected claims on products sold during the last one year, based on past experience of the level of returns. It is expected that most of these costs will be incurred within next one year of the balance sheet date.

Assumptions used to calculate the provision for defects were based on current sales levels and current information available about returns based on the past experiences for all products sold.

14. Short term loan

Unsecured				
Bank term loan due within one year	<u>1,000</u>	<u>500</u>	<u>1,000</u>	<u>500</u>

The short term loan has a maturity period of one month and can be roll-over monthly. Interest charged during the year range from 3.26% to 4.75% (2005 : 2.80% to 3.30%) per annum.

15. Long term loans

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Secured				
Bank term loans	1,924	2,176	1,924	2,056
Due within one year	(929)	(1,645)	(929)	(1,525)
Due after one year	<u>995</u>	<u>531</u>	<u>995</u>	<u>531</u>

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

15. Long term loans (cont'd)

Long term loans consist of various bank loans that mature in September 2006, December 2006 and November 2009. These loans are repayable in equal monthly instalments and bear interest at rates ranging from 3.49% to 6.52% (2005: 2.14% to 6.23%) per annum and are secured as follows:

- (a) a fixed charge on certain plant and machinery of the Company and subsidiary with a net book values of approximately \$4,052,697 and \$113,050 (2005: \$4,688,475 and \$158,461) respectively; and
- (b) corporate guarantees given by the Company's subsidiaries.

16. Deferred tax liability

Tax over book depreciation	<u>2,263</u>	<u>2,564</u>	<u>1,729</u>	<u>1,994</u>
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17. Share capital

	Group and Company	
	2006	2005
	\$'000	\$'000
Issued and fully paid		
At beginning of year		
- 115,365,000 (2005: 115,365,000) ordinary shares	11,536	11,536
Transfer of share premium reserve to share capital	1,609	-
At end of year	<u>13,145</u>	<u>11,536</u>
- 115,365,000 (2005: 115,365,000) ordinary shares		

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction.

On 30 January 2006, in accordance with the Companies (Amendment) Act 2005, the concepts of "par value" and "authorised capital" were abolished and on that date, the shares of the Company ceased to have a par value. In addition, the amount standing in the share premium reserve had become part of the Company's share capital.

Under the Company's Employees' Share Option Scheme, options are granted to Directors of the Company and eligible staff employed in the Group for a term of 10 years to purchase ordinary shares of the Company at the exercise price of the share options determined at the date of grant. The options vest at the second anniversary of that date.

Information with respect to the number of options granted under the Company's employee option plan is as follows:

	Group and Company	
	2006	2005
	'000	'000
Options outstanding		
At beginning of year	1,719	2,060
Exercised	-	(5)
Lapsed	(181)	(336)
At end of year	<u>1,538</u>	<u>1,719</u>

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

17. Share capital (cont'd)

Terms of the share options outstanding at the end of the year:

Expiry date	Exercise price	Group and Company	
		2006 '000	2005 '000
4 March 2011	\$0.24	41	41
1 September 2013	\$0.49	1,497	1,678
		<u>1,538</u>	<u>1,719</u>

Employee share option plans

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year.

	No. of share options 2006	WAEP (\$) 2006	No. of share options 2005	WAEP (\$) 2005
Outstanding at beginning of year ⁽¹⁾	1,719,000	0.48	2,060,000	0.48
Exercised during the year ⁽²⁾	–	–	(5,000)	0.24
Expired during the year	(181,000)	0.49	(336,000)	0.49
Outstanding at end of year ^{(1), (3)}	<u>1,538,000</u>	0.48	<u>1,719,000</u>	0.49
Exercisable at end of year	<u>1,538,000</u>	0.48	<u>1,719,000</u>	0.49

(1) Included within these balances are equity-settled options that have not been recognised in accordance with FRS 102 as these equity-settled options were granted on or before 22 November 2002. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with FRS 102.

(2) The weighted average share price at the date of exercise for the options exercised in financial year ended 30 June 2005 was \$0.24.

(3) The range of exercise prices for options outstanding at the end of the year was \$0.24 to \$0.49 (2005 : \$0.24 to \$0.49). The weighted average remaining contractual life for these options is 10 years (2005 : 10 years).

The fair value of share options as at the date of grant, is estimated by an external valuer using a binomial model, taking into account the terms and conditions upon which the options were granted. The inputs to the model used for both the years ended 30 June 2006 and 30 June 2005 are :

Dividend yield (%)	0.76
Expected volatility	80
Risk-free interest rate (%)	4.04
Expected life of option (years)	10

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the option grant were incorporated into the measurement of fair value.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

18. Reserves

(a) Share Option Reserve

Employees share option reserve represents the equity-settled share options granted to employees. The reserve is made up of the cumulative value of services received from employees recorded on grant of equity-settled share options.

(b) Foreign currency translation reserve

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency.

(c) Reserve fund

In accordance with the relevant laws and regulations of the People's Republic of China ("PRC"), profits of the subsidiary, Spindex Precision Engineering (Shanghai) Co., Ltd., and Spindex Precision Engineering (Suzhou) Co., Ltd., are available for distribution in the form of cash dividends to the investors after the subsidiaries have (1) satisfied all tax liabilities; (2) provided for losses in previous years and (3) made appropriations to statutory reserve fund and staff bonus and welfare fund. The subsidiaries have to appropriate at least 10% of its annual profit after tax as determined in accordance with the PRC accounting standards and regulations applicable to the subsidiary until the statutory reserve fund reaches 50% of its registered capital. Appropriation to the staff bonus and welfare fund is determined at the discretion of the board of directors.

The statutory reserve fund is not free for distribution as dividends but it can be used to offset losses or be capitalised as capital. The staff bonus and welfare fund can be used for rewards and collective welfare for employees.

For the financial year ended 30 June 2006, the board of directors of the subsidiary resolved to appropriate 10% (2005 : 10%) of the net profit as reported in its statutory financial statements for the year ended 31 December 2005 to the reserve fund.

19. Turnover

Turnover represents sales of goods in the normal course of business, net of returns. Group turnover is in respect of third party transactions only.

20. Other operating income

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Dividend income from subsidiaries	–	–	223	648
Insurance claims	17	33	7	12
Sale of scrap	656	587	112	96
Other income	23	–	23	–
Grant income	18	–	18	–
Interest income from banks	110	71	54	16
	<u>824</u>	<u>691</u>	<u>437</u>	<u>772</u>

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

21. Profit from operations

This is determined after charging (crediting) the following:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Non-audit fees				
- payable to auditors of the Company	26	14	24	14
- payable to other auditors	5	6	-	-
Depreciation	4,130	4,197	1,841	2,017
Directors' remuneration (Note 23)				
- directors of the Company	539	549	539	549
Directors' fees (Note 23)				
- directors of the Company	81	79	81	79
Foreign exchange loss, net	545	322	487	211
Employee benefit (Note 22)*	9,597	8,919	4,787	5,313
Allowances for stocks obsolescence	614	47	108	32
Write-back of allowance for stocks obsolescence	(194)	(21)	-	-
Stocks written off	118	58	53	43
Operating lease expenses	67	64	67	64
	<u>9,597</u>	<u>8,919</u>	<u>4,787</u>	<u>5,313</u>

* This includes the amounts shown as directors' remuneration.

22. Employee benefits

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Wages, salaries and bonuses	7,854	7,503	4,041	4,486
Central Provident Fund contributions	899	747	406	380
Expense of share-based payments	54	214	54	173
Other personnel costs	790	455	286	274
	<u>9,597</u>	<u>8,919</u>	<u>4,787</u>	<u>5,313</u>

Included in the Group's employee benefits expense is directors' remuneration of approximately \$539,000 (2005 : \$549,000). The Group's employee benefits expense also include compensation of key management personnel who are not a director of approximately \$780,000 (2005 : \$801,000) as disclosed in Note 27(b).

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

23. Directors' remuneration and fees

The remuneration of the directors in the various remuneration bands is as follows:

	2006			2005		
	Executive Directors	Non-Executive Directors	Total	Executive Directors	Non-Executive Directors	Total
\$500,000 and above	–	–	–	–	–	–
\$250,000 to \$499,999	1	–	1	2	–	2
\$0 to \$249,999	1	3	4	–	3	3
	<u>2</u>	<u>3</u>	<u>5</u>	<u>2</u>	<u>3</u>	<u>5</u>

24. Financial expenses

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Interest expense				
- bank term loans	<u>136</u>	<u>128</u>	<u>135</u>	<u>111</u>

25. Income tax

(a) Major components of income tax expense

The major components of income tax expenses for the years ended 30 June 2006 and 2005 are :

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current income tax				
- current income taxation	494	540	273	89
- under / (over) provision in respect of prior year	165	(117)	165	–
Deferred income tax				
- movement in temporary differences	(92)	(191)	(227)	(96)
- (Over) / under provision in respect of prior year	(97)	124	(55)	11
	<u>470</u>	<u>356</u>	<u>156</u>	<u>4</u>

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

25. Income tax (cont'd)

Compensation of Directors and senior management staff

(b) Relationship between tax expense and accounting profit

A reconciliation of the tax expense and the product of profit before tax multiplied by the applicable tax rate is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit before tax	2,689	1,857	452	201
Tax at the domestic tax rate applicable to profits 20% (2005:20%)	538	371	90	40
Tax effect of:				
- different tax rates in other countries	14	(101)	-	-
- expenses not deductible for tax purposes	17	192	12	54
- income not subject to tax	(16)	-	(45)	(129)
- tax exemption on first \$100,000	(11)	(11)	(11)	(11)
- Under /(over) provision of current tax in respect of prior year	165	(117)	165	-
- Under /(over) provision of deferred tax in respect of prior year	(97)	124	(55)	11
- utilisation of deferred tax asset not recognised in prior year	(83)	(106)	-	-
- utilisation of reinvestment allowance	(50)	(38)	-	-
- others	(7)	42	-	39
Income tax expense recognised in the profit and loss account	470	356	156	4

Subsidiaries

For the subsidiaries incorporated in the People's Republic of China ("PRC"), Spindex Precision Engineering (Shanghai) Co., Ltd. and Spindex Precision Engineering (Suzhou) Co., Ltd., provide for PRC Enterprise Income Tax on the basis of its statutory profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for tax purposes.

Spindex Precision Engineering (Shanghai) Co., Ltd. is subject to Enterprise Income Tax ("EIT") at a rate of 15% as it is incorporated in the Pudong New Area.

In accordance with the "Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises", Spindex Precision Engineering (Suzhou) Co., Ltd. is entitled to full exemption from corporate income tax of the PRC for the first two years and a 50% reduction in EIT for the next three years starting from the first profitable year of operation after setting off all accumulated losses brought forward from the previous years.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

25. Income tax (cont'd)

Under tax scheme, Spindex Industries (Hanoi) Co., Ltd., incorporated in Vietnam, Hanoi is imposed enterprise income tax ("EIT") of 10% of taxable profit within 15 years and 28% for ensuing fiscal years. Spindex Industries (Hanoi) Co., Ltd. is entitled to an exemption from EIT for 4 years commencing with the first year of earning profits, and a 50% reduction for the following 7 years.

26. Earnings per share (cents)

Basic earnings per share is calculated by dividing the net profit for the year of \$2,219,000 (2005: \$1,501,000) attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

Basic earnings per share

The weighted average number of ordinary shares is arrived at as follows:

	Weighted average number of shares	
	2006	2005
Issued ordinary shares at beginning of year	115,365,000	115,360,000
Weighted average number of ordinary shares issued during the year	–	3,778
	115,365,000	115,363,778
At end of year	115,365,000	115,363,778

Diluted earnings per share

When calculating diluted earnings per share, the weighted average number of shares is adjusted for the effect of all dilutive potential ordinary shares. The number of unissued shares under options granted under the Spindex ESOS and their exercise price are set out in the Directors' Report. The average fair value of one ordinary share during the financial year was \$0.23 (2005: \$0.37).

The weighted average number of ordinary shares adjusted for the unissued shares under option is as follows:

	Weighted average number of shares	
	2006	2005
Weighted average number of ordinary shares (used in the calculation of basic earnings per share)	115,365,000	115,363,778
Effect of dilutive securities share options	–	12,862
Weighted average number of issued ordinary shares at the end of year (diluted)	115,365,000	115,376,640
	115,365,000	115,376,640

The options issued were anti-dilutive thus the calculations in the current financial year was disregarded.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

27. Related party information

An entity or individual is considered a related party of the Group for the purposes of the financial statements if: i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or ii) it is subject to common control or common significant influence.

(a) Sale and purchase of goods and services

In addition to those related party information disclosed elsewhere in the financial statements, the following significant transactions between the Group and related parties who are not members of the Group took place during the year at terms agreed between the parties:

	Company	
	2006 \$'000	2005 \$'000
Income		
Sales to subsidiaries	7,846	3,992
Expenses		
Purchases from subsidiaries	5,326	4,418
Others		
Sale of property, plant and equipment to subsidiaries	109	682
	<u>109</u>	<u>682</u>

(b) Compensation of key management personnel

	Group	
	2006 \$'000	2005 \$'000
Short-term employee benefits	1,305	1,295
Cost of share-based payments	14	55
	<u>1,319</u>	<u>1,350</u>
Directors' fees	81	79
Total compensation paid	<u>1,400</u>	<u>1,429</u>
Comprise amounts paid to :		
Directors of the Company		
- fees	81	79
- remuneration	539	549
	<u>620</u>	<u>628</u>
Other key management personnel	780	801
	<u>1,400</u>	<u>1,429</u>

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

28. Contingent liabilities and commitments

(a) Capital expenditure commitments

Capital expenditure not provided for in the financial statements is as follows:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Commitments in respect of contracts placed	1,396	794	313	–

(b) Non-cancellable operating lease commitments

Future minimum lease and lease related fees payments under non-cancellable leases are as follows as of 30 June:

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Not later than one year	119	67	107	67
1 year through 5 years	662	531	613	531
Later than 5 years	19,620	19,474	19,285	19,474
	<u>20,401</u>	<u>20,072</u>	<u>20,005</u>	<u>20,072</u>

There are no restrictions imposed by lease arrangements, such as those concerning dividends, additional debts and further leasing.

29. Segment information

(a) Business segments

The Group is organised on a world-wide basis into major product categories, namely:

- (i) Printing and imaging
- (ii) Machinery, automotive systems and telecommunications
- (iii) Others (Domestic appliances, consumer electronics, data storage and others)

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

29. Segment information (cont'd)

(a) Business segments (cont'd)

Segment accounting policies are the same as the policies of the Group as described in Note 2.

	Printing and imaging		Machinery, automotive systems and telecommunications		Others		Group	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Turnover	27,325	18,944	15,232	17,798	13,229	11,317	55,786	48,059
Gross profit	4,702	2,898	2,600	3,781	2,518	2,169	9,820	8,848
Unallocated expenses							(6,995)	(6,863)
Operating profit							2,825	1,985
Financial expenses - net							(136)	(128)
Tax							(470)	(356)
Net profit for the year							2,219	1,501
Assets								
Trade debtors	6,084	4,604	3,956	4,885	2,977	2,447	13,017	11,936
Unallocated assets							48,868	44,899
Total assets							61,885	56,835
Unallocated liabilities							20,037	16,247
Other segment information								
Depreciation of plant and machinery	1,524	1,256	849	1,177	738	744	3,111	3,177
Depreciation of other assets							1,019	1,020
Depreciation expense for the year							4,130	4,197

The Directors do not consider it meaningful to disclose capital expenditure by business segments as required by Financial Reporting No. 14 - Segment Reporting due to the fact the Group's capital assets can be used interchangeably in the production of its products.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

29. Segment information (cont'd)

(b) Geographical segments

Turnover is based on the location of customers regardless of where the goods are produced. Assets and additions to property, plant and equipment are based on the location of those assets.

	Turnover		Assets		Capital expenditure	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
People's Republic of China	21,945	23,710	20,527	21,754	523	1,665
Singapore	7,466	7,833	20,568	18,916	82	389
ASEAN (excludes Singapore)	18,840	10,715	20,552	15,821	2,654	2,572
USA, Europe and others	7,535	5,801	–	–	–	–
	<u>55,786</u>	<u>48,059</u>	<u>61,647</u>	<u>56,491</u>	<u>3,259</u>	<u>4,626</u>

30. Dividends paid and proposed

Group and Company

2006 \$'000	2005 \$'000
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Dividends paid

Final dividend of 0.70 (2005: 0.48) cents per ordinary share less tax in respect of previous financial year

<u>369</u>	<u>923</u>
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Dividends proposed

The directors propose that a final dividend of 0.56 (2005: 0.32) cents per ordinary share less tax, amounting to \$646,000 (2005: \$369,000) be paid for the year ended 30 June 2006.

31. Financial instruments

Financial risk management and policies

The Group's financial risk management policy seeks to ensure that adequate financial resources are available for the development of the Group's business whilst managing its interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group operates within clearly defined guidelines that are approved by the Board of Directors and the Group's policy is not to engage in speculative transactions.

Interest rate risk

The Group's exposure to interest rate risk relates to the interest bearing fixed deposit. The fixed deposit is at a fixed interest rate. The Group manages its interest rate risk by placing such balances on varying maturities and interest rate terms.

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

31. Financial instruments (cont'd)

The Group obtains additional financing through bank borrowings and leasing arrangements. The Group's policy is to obtain the most favourable interest rates available without increasing its foreign currency exposure.

Foreign currency risk

The Group operates in four countries and, as a result, are exposed to foreign exchange risks arising from various currency exposures such as United States Dollars, Renminbi, Malaysian Ringgit and Vietnamese Dong. In addition to transactional exposures, the Group is also exposed to foreign exchange movements on its net investment in the foreign subsidiaries.

The Group entered into foreign currency forward exchange contracts in order to limit the Group's exposure to adverse fluctuations in foreign currency exchange rates. It is the Group's policy not to enter into derivative forward foreign exchange contracts for speculative purposes. The fair values of open forward exchange contracts as at year-end is not material to the financial statements.

Credit risk

Financial assets which potentially expose the Group to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. The cash and cash equivalents are placed with various financial institutions.

The Group's customer base consists primarily of businesses in Singapore, Malaysia, The People's Republic of China and Vietnam. The Group performs ongoing credit evaluations of its customers and generally does not require collateral on trade receivables. The Group maintains a provision for potentially uncollectible accounts receivables based on its assessment of the collectibility of accounts receivables.

The maximum exposure to credit risk is represented by the carrying amount of the financial assets as stated in the balance sheet.

Liquidity risk

In the management of liquidity risks, the Group monitors and maintains a level of cash and bank balances deemed sufficient to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Fair value

Fair value is defined as the amount at which a financial instrument can be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Trade and debtors, cash and cash equivalents, intercompany balances and other financial assets

The carrying amount approximates fair value due to the relatively short-term maturity of these financial instruments.

Trade and other creditors, short-term borrowings and other current financial liabilities

NOTES TO THE FINANCIAL STATEMENT

Year Ended 30 June 2006

(Amounts expressed in Singapore Dollars)

The carrying amount approximates fair value because of the short period of maturity of these instruments.

Long term loans

(a) Variable interest rate bearing

The fair value of long term loans with variable interest rates approximates its carrying amounts.

(b) Fixed interest rate bearing

The fair value of long term loans with fixed interest rates are based on the quoted market price for the same or similar issues or on the current rates available for debt with the same maturity profile. As at 30 June 2006, the carrying amount of these fixed interest rate term loans is approximately \$156,000 (2005: \$781,000) and the fair value is approximately \$156,000 (2005: \$766,000).

32. Authorisation of financial statements

The financial statements for the year ended 30 June 2006 were authorised for issue in accordance with a resolution of the directors on 13 September 2006.

DETAILS OF MAJOR PROPERTIES IN THE GROUP

Year Ended 30 June 2006

Major properties of the Group are as follows:

DESCRIPTION	LOCATION	AREA (SQ. METRES)	TENURE OF LEASE	NET BOOK VALUE	
				2006 \$'000	2005 \$'000
Leasehold property	Singapore 6 Neythal Road Singapore 628573	4,477	60 years	2,511	2,708
	People's Republic of China 475 Fa Sai Road WaiGaoQiao Free Trade Zone Shanghai 200131 China	8,144	50 years	3,787	3,782
	Vietnam Lot No. 7 Noi Bai Industrial Zone Quang Tien Soc Son District Hanoi Vietnam	9,578	30 years	1,768	906
Freehold property	Malaysia 6 Jalan Istimewa 7 Taman Perindustrian Cemerlang 81800 Ulu Tiram Johor Malaysia	9,470	NA	3,321	3,443

STATISTICS OF SHAREHOLDINGS

As at 13 September 2006

Authorised Share Capital	:	S\$20,000,000
Issued and Fully Paid-up Capital	:	S\$11,536,500
Class of Shares	:	Ordinary Shares of S\$0.10 each
Voting Rights	:	On show of hands - One vote for each member On poll - One vote for each ordinary share

DISTRIBUTION OF SHAREHOLDINGS

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	10	0.87	6,882	0.01
1,000 - 10,000	753	65.59	4,175,776	3.62
10,001 - 1,000,000	371	32.32	21,363,890	18.52
1,000,001 and above	14	1.22	89,818,452	77.85
Total :	1,148	100.00	115,365,000	100.00

TWENTY LARGEST SHAREHOLDERS

Name	No. of Shares	%
1. Choo Heng Thong	28,175,670	24.42
2. Tan Choo Pie @ Tan Chang Chai	28,175,670	24.42
3. HSBC (Singapore) Nominees Pte Ltd	10,445,000	9.05
4. UOB Kay Hian Pte Ltd	6,692,000	5.80
5. OCBC Securities Private Ltd	3,299,000	2.86
6. United Overseas Bank Nominees Pte Ltd	2,880,000	2.50
7. Ng Ching Siang	1,803,000	1.56
8. Loh Buck Chin Jenigeline	1,515,000	1.31
9. Lee Chui Huat	1,274,000	1.10
10. Phillip Securities Pte Ltd	1,271,000	1.10
11. Hong Leong Finance Nominees Pte Ltd	1,117,000	0.97
12. Wong Liang Kwang	1,106,000	0.96
13. Tan Kin Tatt	1,049,112	0.91
14. Wang Jung Hsin	1,016,000	0.88
15. Ng Sim Bio	964,000	0.84
16. Kim Eng Securities Pte. Ltd.	665,000	0.58
17. Lim & Tan Securities Pte Ltd	611,000	0.53
18. Estate of Ng Boon Bee, Deceased	600,000	0.52
19. Kong Siew-Yin Angelina	545,000	0.47
20. DBS Nominees Pte Ltd	518,000	0.45
Total :	93,721,452	81.23

Based on the information available to the Company, approximately 51.15% of the Company's equity securities are held in the hands of the public. This is in compliance with Rule 723 of the Listing manual of the SGX-ST which require at least 10% of a listing issuer's equity securities to be held by public.

Name of Substantial Shareholders	No of Shares Direct Interest	No of Shares Deemed Interest
Choo Heng Thong	28,175,670	-
Tan Choo Pie @ Tan Chang Chai	28,175,670	-
Chartered Asset Management Pte Ltd	-	8,794,000
CAM_GTF Limited *	8,657,000	-

* CAM-GTF Limited is a fund managed by Chartered Asset management Pte Ltd ("CAM"). "CAM" deemed interest includes the direct interest of CAM-GTF.

NOTICE OF THE 19TH ANNUAL GENERAL MEETING

SPINDEX INDUSTRIES LIMITED
(Incorporated in the Republic of Singapore)
(Company Registration No. 198701451M)

NOTICE IS HEREBY GIVEN that the 19th Annual General Meeting of the Company will be held at 6 Neythal Road, Singapore 628573 on Tuesday, 31st day of October 2006 at 10.00 a.m. for the following purposes:

As Routine Business

1. To receive and adopt the Directors' Report and the Audited Accounts for the financial year ended 30 June 2006, together with the Auditors' Report thereon. (Resolution 1)
2. To declare a final dividend of 0.7 cent per ordinary share less income tax of 20% for the financial year ended 30 June 2006 (previous year : 0.4 cent per ordinary share less income tax of 20%). (Resolution 2)
3. To re-elect Mr Chew Heng Ching as a Director under Article 104 of the Company's Articles of Association. (Resolution 3)
4. To re-elect Mr Tan Choo Pie @ Tan Chang Chai as a Director under Article 104 of the Company's Articles of Association. (Resolution 4)
5. To approve the payment of Directors' Fees of S\$80,750 for the financial year ended 30 June 2006 (previous year : S\$78,625). (Resolution 5)
6. To re-appoint Ernst & Young as Auditors and to authorise the Directors to fix their remuneration. (Resolution 6)
7. To transact any other routine business that may properly be transacted at an Annual General Meeting.

As Special Business:

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

8. "That pursuant to Section 161 of the Companies Act, Cap. 50 and the listing rules of the Singapore Exchange Securities Trading Limited ("SGX-ST") and notwithstanding the provisions in the Articles of Association of the Company, authority be and is hereby given to the Directors of the Company to:
 - A. (i) issue shares in the capital of the Company (whether by way of rights, bonus or otherwise); and/or
 - (ii) make or grant offers, agreements or options (collectively, "instruments") that may or would require shares to be issued, including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares,

at any time and upon such terms and conditions and for such purposes and to such persons as the Directors may in their absolute discretion deem fit; and
 - B. (notwithstanding that the authority conferred by this Resolution may have ceased to be in force) issue shares in pursuance of any instrument made or granted by the Directors while this Resolution was in force,
- provided that:
- (i) the aggregate number of shares to be issued pursuant to this Resolution (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) does not exceed fifty per cent (50%) of the number of shares of the Company (as calculated in accordance with

NOTICE OF THE 19TH ANNUAL GENERAL MEETING

sub-paragraph (ii) below), of which the aggregate number of shares to be issued other than on a pro rata basis to shareholders of the Company with registered addresses in Singapore (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) does not exceed twenty per cent (20%) of the total number of shares of the Company (as calculated in accordance with sub-paragraph (ii) below);

- (ii) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraph (i) above, the percentage of total number of shares of the Company shall be calculated based on the total number of shares of the Company at the time of the passing of this Resolution, after adjusting for:
 - (a) new shares arising from the conversion or exercise of any convertible securities;
 - (b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of this Resolution, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and
 - (c) any subsequent consolidation or subdivision of shares;
- (iii) in exercising the authority conferred by this Resolution, the Company shall comply with the provisions of the Listing Manual of the SGX-ST for the time being in force (unless such compliance has been waived by the SGX-ST) and the Articles of Association for the time being of the Company; and
- (iv) unless revoked or varied by the Company in general meeting, the authority conferred by this Resolution shall continue in force until the conclusion of the next Annual General Meeting of the Company or the date by which the next Annual General Meeting of the Company is required by law to be held, whichever is the earlier." (Resolution 7)

9. "That the Directors of the Company be and are hereby authorised to offer and grant options in accordance with the provisions of the Spindex Employees' Share Option Scheme ("Scheme") and pursuant to Section 161 of the Companies Act, Chapter 50, to allot and issue from time to time such number of shares in the capital of the Company as may be required to be issued pursuant to the exercise of the options under the Scheme provided always that the aggregate number of shares to be issued pursuant to the Scheme shall not exceed fifteen per cent (15%) of the total number of shares of the Company from time to time." (Resolution 8)

By Order of the Board

Abdul Jabbar Bin Karam Din
Joint Company Secretary

Singapore, 10 October 2006

NOTICE OF THE 19TH ANNUAL GENERAL MEETING

Explanatory Notes

Resolution 3 – Mr Chew is an Independent Director of the Company and the Chairman of the Audit Committee. If re-elected, Mr Chew will continue as the Chairman of the Audit Committee.

Resolution 7 if passed, is to empower the Directors to issue shares in the capital of the Company and/or instruments (as defined above). The aggregate number of shares to be issued pursuant to Resolution 7 (including shares to be issued in pursuance of instruments made or granted) shall not exceed fifty per cent (50%) of the total number of shares of the Company, with a sub-limit of twenty per cent (20%) for shares issued other than on a pro rata basis (including shares to be issued in pursuance of instruments made or granted pursuant to this Resolution) to shareholders with registered addresses in Singapore. For the purpose of determining the aggregate number of shares that may be issued, the percentage of the total number of shares of the Company will be calculated based on the total number of shares of the Company at the time of the passing of Resolution 7, after adjusting for (a) new shares arising from the conversion or exercise of any convertible securities; (b) new shares arising from exercise of share options or vesting of share awards outstanding or subsisting at the time of the passing of Resolution 7, provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST; and (c) any subsequent consolidation or subdivision of shares.

Resolution 8 if passed, is to authorise the Directors to offer and grant options in accordance with the provisions of the Spindex Employees' Share Option Scheme ("Scheme") and pursuant to Section 161 of the Companies Act, Chapter 50 to allot and issue shares under the Scheme up to an amount not exceeding fifteen per cent (15%) of the total number of shares of the Company from time to time.

Notes:

1. A member of the Company entitled to attend and vote at the Annual General Meeting of the Company is entitled to appoint one or two proxies to attend in his stead. A proxy need not be a Member of the Company.
2. A member of the Company which is a corporation is entitled to appoint its authorised representatives or proxies to vote on its behalf.
3. The instrument appointing a proxy must be deposited at the Registered Office of the Company at 6 Neythal Road, Singapore 628573, not less than 48 hours before the time appointed for holding the Annual General Meeting.

SPINDEX INDUSTRIES LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No. 198701451M)

IMPORTANT:

1. For Investors who have used their CPF monies to buy Spindex's shares, this Annual Report is forwarded to them at the request of their CPF Approved Nominees and is sent solely FOR INFORMATION ONLY.
2. This Proxy Form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

PROXY FORM - 19th ANNUAL GENERAL MEETING

I/We, _____ (Name)

of _____ (Address)

being a member/members of the above Company, hereby appoint:

Name	Address	NRIC or Passport No.	Percentage of Shareholdings (%)

and/or failing him/her (delete as appropriate)

Name	Address	NRIC or Passport No.	Percentage of Shareholdings (%)

or failing him/her the Chairman of the Meeting as my/our proxy to attend and vote for me/us on my/our behalf and, if necessary, to demand a poll, at the 19th Annual General Meeting of the Company to be held at 6 Neythal Road, Singapore 628573 on 31 October 2006 at 10.00 a.m. and at any adjournment thereof.

The proxy shall vote on the Resolutions set out in the Notice of Meeting in accordance with my/our directions as indicated with an "x" in the appropriate space below. Where no such direction is given, the proxy may vote or abstain from voting on any matter at the Meeting or at any adjournment thereof.

No.	Resolutions	For	Against
ROUTINE BUSINESS			
1.	Adoption of Reports and Audited Accounts (Resolution 1)		
2.	Approval of final dividend of 0.7 cent per ordinary share less income tax of 20% (Resolution 2)		
3.	Re-election of Mr Chew Heng Ching as a Director (Resolution 3)		
4.	Re-election of Mr Tan Choo Pie @ Tan Chang Chai as a Director (Resolution 4)		
5.	Approval of Directors' Fees of S\$80,750 (Resolution 5)		
6.	Re-appointment of Ernst & Young as Auditors (Resolution 6)		
7.	Any other routine business		
SPECIAL BUSINESS			
8.	Authority for Directors to issue shares pursuant to Section 161 of the Companies Act, Chapter 50 (Resolution 7)		
9.	Authority for Directors to offer and grant options and issue shares in accordance with the provisions of the Spindex Employees' Share Option Scheme (Resolution 8)		

Dated this _____ day of _____ 2006

Total Number of Shares held in:	
CDP Register	
Register of Members	

Signature(s) of member(s)
Or Common Seal of Corporate Shareholder

Notes:-

1. A member of the Company entitled to attend and vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote in his/her stead. A proxy need not be a member of the Company and where there is more than one proxy, the proportion of shares to be represented by each proxy must be stated.
2. Where a member appoints two proxies, the appointment shall be invalid unless he/she specified the proportion of his/her shareholding (expressed as a percentage of the whole) to be represented by each proxy.
3. This instrument of proxy must be executed by the appointor or his/her duly authorised attorney or, if the appointor is a body corporate, signed by a duly authorised officer or its attorney or affixed with its common seal thereto.
4. A body corporate which is a member may also appoint by resolution of its directors or other governing body an authorised representative or representative in accordance with its Articles of Association and Section 179 of the Companies Act, Chapter 50 of Singapore to attend and vote for and on behalf of such body corporate.
5. This instrument appointing a proxy or proxies (together with the power of attorney (if any) under which it is signed or a certified copy thereof), must be deposited at the registered office of the Company at 6 Neythal Road, Singapore 628573 not less than 48 hours before the time fixed for holding the Annual General Meeting.
6. Please insert the total number of shares held by you. If you have shares entered against your name on the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), you should insert that number of shares. If you have shares registered in your name in the Register of Members, you should insert that number of shares. If you have shares entered against your name in the Depository Register and shares registered in your name in the Register of Members, you should insert the aggregate number of shares. If no number is inserted, this instrument of proxy will be deemed to relate to all the shares held by you.
7. The Company shall be entitled to reject this instrument of proxy if it is incomplete, improperly completed or illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified in this instrument of proxy. In addition, in the case of members whose shares are deposited with The Central Depository (Pte) Limited ("CDP"), the Company may reject any instrument of proxy lodged if such member is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for the holding of the Annual General Meeting as certified by CDP to the Company.