BAKER TECHNOLOGY LIMITED
(Unique Entity Number 198100637D)
(Incorporated in the Republic of Singapore)

MATTERS RELATING TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010 – INDEPENDENT AUDITORS' REPORT AND MATERIAL DIFFERENCE BETWEEN UNAUDITED AND AUDITED RESULTS

Independent Auditors' Report

Pursuant to Rule 704(5) of the Singapore Exchange Securities Trading Limited's Listing Manual, the Board of Directors of Baker Technology Limited (the 'Company") wishes to announce that the Company's auditors, Ernst & Young LLP ("EY"), have issued an "Except For" qualified opinion and raised a matter of emphasis in the Independent Auditors' Report on the financial statements of the Company and its subsidiaries (collectively the "Group") for the financial year ended 31 December 2010.

The Board believes that the qualified auditors' opinion and matter of emphasis raised by EY are accounting technicality based on the following:

- During the year, the Company adopted FRS 31 *Interests in Joint Ventures* to account for its aggregate 15% shareholding in PPL Shipyard Pte Ltd ("PPLS"), held by its subsidiary, PPL Holdings Pte Ltd ("PPLH"). Accordingly, the Group is required to equity account for its share of results in PPLS.
- However, as the Company was not able to obtain the financial results of PPLS for the period from 1 January 2010 to 26 October 2010 (date of disposal), the Group has recorded its share of PPLS result for that period based on the interim dividend of $15.8 million received by the Group in April 2010. As the auditors were unable to carry out additional procedures necessary to satisfy themselves to the appropriateness of the $15.8 million share of results, a qualified audit opinion was triggered.
- As the Group has disposed of PPLH on 26 October 2010, any over or under-statement in the share of results would be compensated by a corresponding amount of under or over- statement in the gain on disposal of subsidiary.
- As the Group currently has a pending legal suit with Sembcorp Marine Limited, which holds the remaining 85% shareholding in PPLS, the Group has prudently deferred the recognition of the gain arising from the above disposal of PPLH. Depending on the outcome of the legal proceedings, adjustments may have to be made to the amount of the deferred gain arising from the disposal. This was raised as a matter of emphasis by EY.

Copies of the aforesaid Independent Auditors' Report together with the relevant notes are annexed to this announcement for further information.

Material Differences between Unaudited and Audited Results

The Board wishes to announce that pursuant to Rule 704(6) of the Singapore Exchange Securities Trading Limited's Listing Manual, the following material adjustment has been made to the audited financial statements upon the finalisation of the audit:-

- It was noted during the finalisation of the audit that the Group has over-accrued for income tax liabilities for one of its subsidiaries by $680,000 due to a computational error. As a result, the Group's income tax expense was reduced by $680,000 and the Group's tax payable was correspondingly reduced by the same amount.

The above adjustment resulted in an increase in the Group's net profit for year 2010 from $26,721,000 (as announced on 22 February 2011) to $27,401,000. Accordingly, the Group's net assets increased to $187,133,000.

By Order of the Board
Baker Technology Limited

Tan Kiang Kherng
Financial Controller

25 March 2011

Annex A

**Independent Auditors' Report To the Members of
Baker Technology Limited**

Report on the Financial Statements

We have audited the accompanying financial statements of Baker Technology Limited (the "Company") and its subsidiaries (collectively, the "Group") which comprise the balance sheets of the Group and the Company as at 31 December 2010, the statements of changes in equity of the Group and the Company, and the statement of comprehensive income and statement of cash flows of the Group for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition, and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss account and balance sheet and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Except as discussed below, we conducted our audit in accordance with Singapore Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Opinion

Basis for Qualified Opinion

As disclosed in Note 2.1 to the financial statements, the Group's subsidiary, PPL Holdings Pte Ltd ("PPLH") held an aggregate 15% shareholding in PPL Shipyard Pte Ltd ("PPLS"). The management was not able to obtain the financial results of PPLS's operations for the period from 1 January 2010 to 26 October 2010 (date of disposal). The Group's share of PPLS's result of $15,823,500 recognised in the consolidated statement of comprehensive income for the financial year ended 31 December 2010 was based on the interim dividend received by the Group in April 2010.

In addition, as disclosed in Note 26 to the financial statements, the Group recorded an amount of $58,237,148 as deferred gain on disposal of the investment in PPLS in its balance sheet as at 31 December 2010. The management has deferred the recognition of this gain on disposal due to the pending outcome of the legal case as disclosed further in the note.

As the management was not able to obtain the audited financial results of PPLS from 1 January 2010 to the date of disposal, we were unable to carry out additional procedures necessary to satisfy ourselves to the appropriateness of the $15,823,500 share of results of operations recorded in the consolidated statement of comprehensive income for the financial year ended 31 December 2010. The carrying value of the investment in PPLS as at the date of disposal was used to determine the deferred gain of $58,237,148 recorded in the Group's balance sheet as at 31 December 2010. As we were also unable to assess the appropriateness of the carrying value of the investment in PPLS at the date of disposal, accordingly, we were also unable to assess the appropriateness of the $58,237,148 deferred gain recorded in the Group's balance sheet as at 31 December 2010.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Emphasis of Matter

Without further qualifying our opinion, we draw attention to Note 26 to the financial statements which discloses that the Group currently has a pending legal suit with Sembcorp Marine Limited ("SCM") which holds the remaining 85% shareholding in PPLS. As disclosed in Note 26, SCM has commenced legal proceedings against the Group and asked the High Court of Singapore to rule, *inter alia,* that the Joint Venture Agreement is no longer in force; to direct the Group to transfer the remaining 15% shareholding interest to SCM against the tendered payment; and to pay damages for the alleged breaches of the Joint Venture Agreement.

Although the legal case is still pending, the Group completed the disposal of the 100% share capital in PPLH including the investment in PPLS and received the consideration amounting to US$116,250,000 on 26 October 2010. Pending the outcome of the legal case, the Group and the Company have deferred the recognition of the gain arising from the disposal amounting to $58,237,148 and $141,941,392 for the Group and the Company respectively. These amounts are recorded in the respective balance sheets of the Group and the Company as at 31 December 2010. Adjustments may have to be made to these amounts depending on the outcome of the above mentioned legal proceedings.

Report on Other Legal and Regulatory Requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company and by subsidiaries incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and Certified Public Accountants
Singapore

25 March 2011

Annex A

<u>Extract of notes to the financial statement</u>

<u>Note 2.1 - Changes in accounting policies</u>

During the year, the Company reviewed its accounting policy for its indirect 15% equity stake in PPL Shipyard Pte Ltd (“PPLS”), which was held through its subsidiary PPL Holdings Pte Ltd (“PPLH”) and its wholly owned subsidiary, E-Interface Holdings Limited (“E-Interface”). The remaining 85% of the shareholding in PPLS is held by Sembcorp Marine Ltd (“SCM”), a company incorporated in Singapore and listed on the Mainboard of SGX-ST.

Both PPLH and SCM entered into a joint venture agreement on 9 April 2001 (“JV Agreement”) and a supplemental agreement dated 5 July 2003.

In previous financial years, the Group classified its investment in PPLS as an available-for-sale financial asset. This was initially recorded at cost in the amount of $3,066,000 through the acquisition of 100% of PPLH in May 2007. In accordance with FRS 103 *Business Combinations*, the fair value of this investment at the date of acquisition was determined at approximately $16,388,000.

In September 2007 and November 2007, the Group received interim dividends of $11,322,300 from PPLS, which were deemed to be declared from pre-acquisition profits, and accordingly the carrying value of the investment was reduced from $16,388,000 to $5,066,000.

Due to the management’s control in PPLS and the existence of the shareholders’ agreements, the Group has determined that it would be more appropriate to adopt FRS 31 *Interests in Joint Ventures* to account for its 15% investment in PPLS. Accordingly, the Group has reclassified this investment as a joint venture and has equity accounted for its share of results since acquisition in May 2007 until 26 October 2010, when the Group disposed its investment in PPLH. In accordance with FRS 31 *Interest in Joint Venture*, dividend receipts from PPLS would be recorded as a reduction against the carrying value of the investment in PPLS and the share of results of PPLS would be recognised in the consolidated comprehensive income statement.

This change in accounting policy has been applied retrospectively and resulted in the following financial statement effects:

	Group		
	26 October 2010	**2009**	**2008**
	$	$	$
Original cost of the investment	5,066,000	5,066,000	5,066,000
Adjustments:			
Accumulated share of results of joint-venture at the beginning of financial year	77,523,379	22,112,426	4,856,775
Share of results of joint-venture for financial year	15,823,500 *	55,410,953	17,255,651
Accumulated share of results of joint-venture at the end of financial year	93,346,879	77,523,379	22,112,426
Accumulated dividend receipts at the beginning of financial year	(10,710,000)	(5,310,100)	–
Dividend receipts during the financial year	(15,823,500)	(5,400,000)	(5,310,000)
Accumulated dividend receipts at the end of financial year	(26,533,500)	(10,710,000)	(5,310,000)
Increase in investment in joint-venture and retained earnings	66,813,379	66,813,379	16,802,426
Carry value of the investment under equity accounting	71,879,379	71,879,379	21,868,426

* Based on interim dividends received in April 2010 as the Group was unable to obtain the results of PPLS from 1 January 2010 to 26 October 2010.

The Group's retained earnings would be increased by the net increase in the carrying value of the "Investment in joint venture". The opening retained earnings as at 1 January 2009 and the closing retained earnings as at 31 December 2009 in the Group's statement of changes in equity would have increased by S$16,802,426 and S$66,813,379, respectively.

The Group's dividend receipts from PPLS amounting to S$5,400,000 for the prior financial year ended 31 December 2009 would not have been recognised in the consolidated statement of comprehensive income for that year. Instead, the Group would have recognised the share of results amounting to S$55,410,953. In addition, the Group's basic earnings per share (cents) and diluted earnings per share (cents) would be increased by 7.9 and 7.8, respectively.

The above retrospective restatement of financial statements from May 2007 (date of acquisition) to December 2009 was based on the audited financial statements of PPLS.

On 26 October 2010, the Group completed its disposal of PPLH and accordingly ceased equity accounting for the results of PPLS from that date.

<u>Note 26 – Deferred gain on disposal of subsidiary</u>

<u>Pending legal suit arising from the disposal of subsidiary</u>

The following summarises the events leading to the legal suit with SCM, which holds 85% shareholding in PPLS, arising from the Company's disposal of PPLH, a subsidiary:

- 16 April 2010 - The Company received an unsolicited offer from a third party to acquire the entire share capital of PPLH for US$155,000,000.
- 22 April 2010 - The Company received a letter from SCM through its lawyers demanding that the Company not accept the offer. SCM alleged that any sale of the shares of PPLH by the Company would be made in circumvention of the pre-emptive rights of SCM in PPLS's Articles of Association by not giving SCM a first right of refusal over the sale of PPLH's 15% shareholdings in PPLS.
- 23 April 2010 - The Company accepted the offer from the third party buyer.
- 29 April 2010 - SCM tendered a payment of S$59,433,522 to PPLH, purportedly for the exercise of its pre-emptive rights. PPLH rejected the tendered payment from SCM on the same day.
- 13 May 2010 - PPLH received a letter from SCM claiming, *inter alia*, that following its tendered payment for the purchase of PPLH's 15% shareholdings in PPLS, it became a 100% owner of PPLS and that as a consequence, the JV Agreement, to the extent and in the form it then subsisted, ceased to be in force. The letter from SCM further claimed that, if (contrary to SCM's position) the JV Agreement was still subsisting, the JV Agreement had been terminated from the date on account of breaches by PPLH.
- 15 May 2010 - SCM commenced legal proceedings against PPLH and its wholly owned subsidiary, E-Interface (Suit no. S351/2010/H). SCM has asked the High Court of Singapore to rule, *inter alia*, that the JV Agreement is no longer in force, to direct PPLH and E-Interface to transfer the remaining 15% shareholding interest in PPLS to SCM against the tendered payment, and to order them to pay damages for disclosing or causing to disclose confidential information of PPLS to the third party buyer in breach of the JV Agreement.

The Group has sought and obtained legal advice that the claims against PPLH and E-Interface are without merit. It is PPLH's and E-Interface's position that the terms of the JV Agreement relating to the management of PPLS are still in force. The Group will take all appropriate steps to vigorously defend its position.

<u>Revision of offer for disposal of subsidiary</u>

As a result of the legal proceedings in the High Court of Singapore, amendments were made on 1 September 2010 to the original offer, including substituting the original buyer with a new third party buyer and a revision of consideration from US$155,000,000 to US$116,250,000.

Under the revised offer, the Company shall, following the completion of the disposal of PPLH, continue to act on behalf of PPLH and E-Interface, and have the sole conduct and management of the legal suit between PPLH/E-Interface and SCM.

The revised offer also provided that in the event that a final judgment or order of the Supreme Court of Singapore in the legal suit determines, or it is agreed by a settlement agreement between SCM, PPLH and E-Interface, that:

(i) SCM had validly exercised a right of pre-emption over the 15% shareholdings in PPLS; or

(ii) PPLH had validly exercised its put option under the supplemental agreement dated 5 July 2003 in respect of the 15% shareholdings in PPLS,

then, the new buyer shall:

(i) effect the transfer of shares in PPLH to the Company; and

(ii) pay to the Company (1) the amount of all dividends received after 16 April 2010 by PPLH and E-Interface from PPLS and (2) the amount of any sum received by PPLH from SCM for the 15% shareholdings in PPLS.

The Company shall repay the revised consideration of US$116,250,000 back to the new buyer.

On 26 October 2010, the Company completed the above disposal of PPLH for a revised consideration of US$116,250,000 (or S$150,543,750).

However, pending the outcome of the legal suit between PPLH/E-Interface and SCM, the Group and Company have deferred the recognition of gain of $58,237,148 and $141,941,392, respectively, from this disposal.

The deferred gain on disposal for the Group and Company are computed as follows:

	Group $	**Company** $
Proceed from disposal (US$116.25m)	150,543,750	150,543,750
Less:		
Cost of investment in PPLH	–	3,600,000
Share of net assets of PPLH (excluding the investment in joint venture)	15,424,865	–
Carrying value of the investment in joint venture at the date of disposal	71,879,379	–
Expenses on disposal	5,002,358	5,002,358
	92,306,602	8,602,358
Deferred gain on disposal	58,237,148	141,941,392

Adjustments may be made to the above deferred gain amounts depending on the outcome of the above mentioned legal proceedings.