

## **KXD DIGITAL ENTERTAINMENT LIMITED AND ITS SUBSIDIARIES**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF KXD DIGITAL ENTERTAINMENT LIMITED**

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We have audited the accompanying financial statements of KXD Digital Entertainment Limited (the "Company") and its subsidiaries (the "Group") which comprise the balance sheets of the Group and the Company as at December 31, 2008, the profit and loss statement, statement of changes in equity and cash flow statement of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 25 to 54.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "Act") and Singapore Financial Reporting Standards. This responsibility includes: 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 accounts and balance sheets and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### **Auditors' Responsibility**

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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 audit opinion.

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#### **Opinion**

In our opinion,

- a) 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 December 31, 2008 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the year ended on that date; 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.

#### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Group incurred loss after tax of RMB436,717,000 for the year ended December 31, 2008. The Group and the Company have accumulated losses of RMB268,347,000 and RMB243,649,000 respectively as at December 31, 2008.

As disclosed in Note 1 to the financial statements, the global severe credit crunch and volatility has resulted in uncertainty particularly over the level of demand for the Group's products and the ability of the Group's customers to maintain operations and profitability and to pay their debts. The Group has significantly scaled down its manufacturing and production activities during the year due to the loss of major customers. The Group has also downsized its office and factory premise, and is maintaining a level of employees sufficient for its current production and trading activities. To date, management has considered, but has not been successful in pursuing new business.

The above conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast a significant doubt about the Group's and the Company's ability to continue as a going concern.

Management believes that the Group and the Company have adequate resources to pay their debts as and when they fall due and continue to operate as a going concern for at least the next twelve months after year end. The consolidated financial statements have been prepared on the assumption that the Group and the Company will continue as a going concern.

Deloitte & Touche LLP  
Public Accountants and  
Certified Public Accountants

Ernest Kan Yaw Kiong  
Partner

Singapore  
Date: April 3, 2009