Auditors' Report to the Members of Hua Kok International Ltd

We were engaged to audit the accompanying financial statements of Hua Kok International Ltd (the Company) and its subsidiary companies (the Group) for the year ended 30 June 2005, set out on pages 22 to 64. These financial statements are the responsibility of the Company's Directors.

Except as discussed below, 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 statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not express an opinion on the financial statements for the year ended 30 June 2004 in our auditors' report dated 17 September 2004 due to uncertainty of the ability of the Company and the Group to continue as going concerns, the completeness of recorded liabilities of the Group and the appropriateness of the carrying value of the investment in World Spa Industries Pte Ltd at the Company level.

As disclosed in Note 5 to the financial statements, in January 2005, the Spa World Australia Pty Ltd (SPA) and Giga Holdings Pty Ltd group (GIGA Group) were placed under liquidation. The consolidated income statement of the Group for the year ended 30 June 2005 includes a profit of $316,000 in respect of these subsidiaries for the period from 1 July 2004 to 31 December 2004 based on unaudited management accounts together with a loss on deconsolidation of these subsidiaries of S$2.7 million.

Also as disclosed in Note 5 to the financial statements, Hua Kok Realty (Pte) Ltd Group (HKR Group) is in the process of liquidation and accordingly, had been deconsolidated effective from December 2004. The consolidated income statement of the Group for the year ended 30 June 2005 includes a loss of $404,000 in respect of HKR Group for the period from 1st July 2004 to 30 November 2004 based on unaudited management accounts together with a gain on deconsolidation of $14.7 million.

We were unable to audit the financial statements of SPA, GIGA Group and HKR Group before these were placed into liquidation due to limitations placed on the scope of our work.

Because of the significance of the matters discussed in the preceding paragraphs, we are unable to, and accordingly do not express an opinion as to whether the consolidated financial statements of the Group and the balance sheet 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 2005 and the results, changes in equity and cash flows of the Group for the financial year ended on that date.

Except for the matters discussed in the preceding paragraphs, in our opinion, the accounting and other records required by the Act to be kept by the Company and by those subsidiary companies incorporated in Singapore of which we are the auditors have been properly kept in accordance with the provisions of the Act.

Auditors' Report to the Members of Hua Kok International Ltd (cont'd)

Without further qualifying our opinion, we draw attention to Note 1 of the financial statements. The Group has been incurring operating losses for the past few years. The net operating losses from continuing operations of the Group attributable to the shareholders of the Company for the year ended 30 June 2005 amounted to $1.8 million.

During the year, the Group secured a new investor, Prosperity Steel (Asia) Co, Ltd ("Prosperity" or the "ultimate holding company"), a limited company incorporated in Hong Kong to inject $6 million cash into the Company. Following the capital injection by Prosperity, the Company became a 70% subsidiary company of Prosperity. Prior to the capital injection by Prosperity, the Group had undergone a capital reduction exercise and a Scheme of Arrangement. Resulting from the above initiatives, the Group now has a net current asset position of $2.9 million and a net capital surplus of $3.6 million as at 30 June 2005 (2004 : net current liability position of $28.8 million and net capital deficit of $19.3 million), and at that date, the Company has a net current asset position of $5.3 million and a net capital surplus of $6.2 million (2004: net current liability position of $12.1 million and net capital deficit of $7.8 million).

The ability of the Group and the Company to continue as going concerns is dependent on whether the:

(i) Group and the Company are able to secure new profitable businesses and contracts and generate positive cashflows; and

(ii) ultimate holding company continues to provide financial support to the Group and the Company.

If the Company and the Group are unable to continue in operational existence in the foreseeable future, the Company and the Group may be unable to discharge their liabilities in the normal course of business and adjustments may have to be made to reflect the situation that assets may need to be realised other than in the normal course of business and at amounts which could differ significantly from the amounts at which they are currently recorded in the balance sheet. In addition, the Company and the Group may have to reclassify non-current assets and liabilities as current assets and liabilities respectively. The financial statements of the Company and the consolidated financial statements of the Group do not include any such adjustments.

Ernst & Young
Certified Public Accountants

Singapore
28 September 2005