NH CERAMICS LTD

EMPHASIS OF MATTER BY AUDITORS ON FINANCIAL STATEMENTS

The Directors of NH Ceramics Ltd (the “Company”), pursuant to Rule 704(5), wish to inform Members of an Emphasis of Matter stated in the Auditors’ Report of the Company for the fin ancial year ended 30 June 2005 which is reproduced below:-

Auditors’ Report to the Members of
NH Ceramics Ltd and Subsidiary Companies

We have audited the financial statements of NH Ceramics Ltd (the “Company”) and its subsidiary companies (the “Group”) set out on pages 19 to 44 for the year ended 30 June 2005. 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 of the Company are properly drawn up in accordance with the provisions of the Singapore Companies Act (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; and

(b) 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.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements. The Group incurred a net loss of $4,998,184 for the financial year ended 30 June 2005 amd as at that date, the Company’s and the Group’s current liabilities exceeded its current assets by $31, 734 and $2,044,904 respectively.

The ability of the Company and the Group to continue as going concerns is dependent on several factors, which inter alia include: -

(i) the profitability and cash flows of the Group over the next twelve months; and

(ii) the Group continuing to receive support from financial institutions in relation to the banking and credit facilities made available to the Group.

If the Company and the Group are unable to continue in operational existence for 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 may differ significantly from the amounts at which they are presently recorded in the balance sheets. In addition, the Company and the Group may have to reclassify non-current assets and liabilities as current assets and liabilities respectively. No such adjustments have been made to these financial statements.

ERNST & YOUNG
Certified Public Accountants

Singapore
26 September 2005

"Note 2 to the financial statements":-

2. Basis of presentation

The Group incurred a net loss of $4,998,184 for the financial year ended 30 June 2005 and as at that date, the Company's and the Group's current liabilities exceeded its current assets by $31,734 and $2,044,904 respectively.

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Elaboration and Clarifications by Directors on Emphasis of Matter by Auditors on Financial Statements:-

The Directors noted the concern of the Auditors and wish to draw the attention of Members to the following points included in the Annual Report FY2005:

1) "CHAIRMAN'S STATEMENT AND OPERATIONS REVIEW" - Losses

Page 2/3:

For the full FY2005, the Group incurred a loss before tax of $5.4 million. This is against a loss before tax of $1.7 million in FY2004.

The $3.62 million increase in Group losses for FY2005 resulted mainly from a $4.37 million loss from (i) impairment losses of leasehold & freehold premises ($2.16 million); (ii) reduction in selling prices ($1.24 million); (iii) increase in salaries and CPF contributions ($0.34 million); (iv) reduction in foreign exchange gains ($0.28 million); (v) increase in provision for stock obsolescence ($0.20 million); and (vi) reduction in turnover ($0.15 million). This was partially offset by a $0.75 million gain from (i) reduction in advertising expenses ($0.31 million); (ii) reduction in bad debts ($0.17 million); (iii) reduction in losses from disposal of fixed assets ($0.11 million); (iv) reduction in operating expenses ($0.08 million); (v) reduction in professional fees ($0.05 million); and (vi) reduction in interests paid ($0.03 million).

Members will note that a significant portion of the increase in Group losses were non-cash items, particularly, "impairment losses of leasehold & freehold premises" and "provision for stock obsolescence".

Page 7:

Impairment Losses

The Group recognised impairment loss of $2.16 million on its leasehold JTC factory properties at 1&3 Tuas Avenue 8; leasehold office premises at #01-10 E-Centre@Redhill at Jalan Bukit Merah; and freehold shop unit at #01-09 Kembangan Court at Jalan Masjid. The bases of the provisions were valuations provided by Colliers International (S) Pte Ltd and DTZ Debenham Tie Leung (SEA) Pte Ltd. These provisions compounded the loss for FY2005.

Provision for Stock Obsolescence

Obsolete stocks were periodically identified and disposed off during the financial year.

Additional provisions for stock obsolescence were made upon management review of current market trends, especially in interior design for indoor glazed tiles. This amounted to $0.43 million compared to $0.23 million in FY2004.

2) "AUDITORS' REPORT" - Consolidated Cash Flow Statement (Summarised)

Page 22/23:

	2005 $	2004 $
CASH FLOW FROM OPERATING ACTIVITIES		
Loss before income tax	*(5,400,927)*	*(1,776,463)*
Operating cash flows before reinvestment in working capital	*(1,113,445)*	*470,557*
Cash generated from operations	*830,546*	*2,814,973*
Net cash generated from operating activities	*243,276*	*2,200,156*
CASH FLOW FROM INVESTING ACTIVITIES		
Net cash generated from/(used in) investing activities	*3,194*	*(625,075)*
CASH FLOW FROM FINANCING ACTIVITIES		
Increase/(decrease) in bills payable to banks	*1,420,206*	*(1,197,663)*
Repayments of bank borrowings	*(938,196)*	*(1,785,957)*
Repayment of lease obligations	*(111,681)*	*(121,752)*
Net cash generated from/(used in) financing activities	*370,329*	*(3,105,372)*
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	*616,799*	*(1,530,291)*
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	*(3,255,083)*	*(1,724,792)*
*CASH AND CASH EQUIVALENTS AT END OF YEAR**	*(2,638,284)*	*(3,255,083)*

**Cash and cash equivalents*

Cash and cash equivalents included in the consolidated cash flow statement comprise the following balance sheet amounts:

	2005 $	2004 $
Cash and bank balances	*57,105*	*59,724*
Fixed deposit	*14,292*	*-*
Bank overdrafts (secured)	*(2,709,681)*	*(3,314,807)*
Cash and cash equivalents	*(2,638,284)*	*(3,255,083)*

Members will note that for FY2005:

a) Net "Cash flow from operating ac tivities" continued to be positive - $243,276 (FY2004: $2,200,156).
b) "Repayment of bank borrowings" continued to be made upon scheduled periodic repayments of bank term loans in accordance with the conditions whereby such loans were granted by the banks to the Group vide the banks' Letters of Offer – $938,196 (FY2004: ($1,785,957))
c) "Increase in bills payable to banks" reflected an increase in utilisation of existing bank facilities in line with operational requirements - $1,420,206 (FY2004: ($1,197,663))
d) "Net increase in cash and cash equivalents" reflected an improved net positive cash flow for FY2005 - $616,799 (FY2004: ($1,530,291))

The Directors are pleased to report that the Group continues to enjoy the support of the Principal Bankers.

3) "CHAIRMAN'S STATEMENT AND OPERATIONS REVIEW" - Prospects

Page 8:

Commentary on prospects for the current Financial Year

With the expected turnaround in economic sentiments arising from the initiation of the Integrated Resorts and Business Financial Centre, mul tiplier effects will be generated on the rest of the economy. It is already the opinion of many analysts and economists that 2006 will see a pickup in the Construction Sector. This augurs well for the Group. The Directors expect improvements to turnover and profitability for the current financial year, as demand for building finishes is anticipated to pick up from the doldrums of the past years, against a significantly much improved business environment resulting from the fall out of competing firms.

The Directors expect the financial position and cash flow of the Group to improve during the current financial year. Barring unforeseen circumstances, all the respective companies in the Group are expected to perform better in the current financial year.

Despite the Industry currently remaining weak, albeit with improved sentiments and expectations for the economy and the construction industry, barring unforeseen circumstances, the Group expects to improve on its losses, with the objective of a turnaround to profitability, in FY2006.

By Order of the Board

Submitted by Ricky Paul Goh Moh Chye, Managing Director on 21 -10-2005 to the SGX.