

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 financial year ended 30 June 2006 which is reproduced below:-

***Auditors' Report to the Members of
NH Ceramics Ltd and its Subsidiaries***

We have audited the financial statements of NH Ceramics Ltd (the "Company") and its subsidiaries (collectively, the "Group") set out on pages 17 to 50 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 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, 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 subsidiaries 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 \$2,697,770 during the financial year ended 30 June 2006 and as at that date, the Group's current liabilities exceeded its current assets by \$4,088,010.

The ability of the Group to continue as a going concern 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 and/or other potential capital investors.*

If the Group is unable to continue in operational existence for the foreseeable future, the Group may be unable to discharge its 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 currently recorded in the balance sheet. In addition, 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
6 October 2006

“Note 2 to the financial statements”:-

2. *Fundamental accounting concept*

The Group incurred a net loss of \$2,697,770 (2005: \$4,998,184) for the financial year ended 30 June 2006 and as at that date, the Group’s current liabilities exceeded its current assets by \$4,088,010 (2005: \$4,081,185).

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Elaboration and Clarification 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 FY2006:

Review of the Performance of the Company and its Principal Subsidiaries

Members will note that continual operational and project cost control measures have mitigated the loss of profits resulting from low sales for the Group. The low sales have been reflective of an extremely challenging period whereby the Group adopted a conservative approach in the securing of project orders.

However, with a much improved Construction Industry in FY2006, the Group has since reasserted its efforts, which is reflected in a stronger Project Order Book of its subsidiary, Nam Huat Tiling & Panelling Co Pte Ltd (“NHTP”), as at the end of the financial year

Consolidated Cash Flow Statement (Summarised)

	<i>2006</i>	<i>2005</i>
	<i>\$'000</i>	<i>\$'000</i>
<u>CASH FLOW FROM OPERATING ACTIVITIES</u>		
<i>Loss before income tax</i>	<i>(2,697)</i>	<i>(5,402)</i>
<i>Operating cash flows before reinvestment in working capital</i>	<i>(2,045)</i>	<i>(1,114)</i>
<i>Cash generated from operations</i>	<i>2,475</i>	<i>831</i>
<i>Net cash generated from operating activities</i>	<i>1,807</i>	<i>244</i>
	=====	=====
<u>CASH FLOW FROM INVESTING ACTIVITIES</u>		
<i>Net cash generated from investing activities</i>	<i>359</i>	<i>2</i>
	=====	=====
<u>CASH FLOW FROM FINANCING ACTIVITIES</u>		
<i>Repayments of bank borrowings</i>	<i>(1,624)</i>	<i>(939)</i>
<i>Repayment of lease obligations</i>	<i>(131)</i>	<i>(111)</i>

<i>Increase/(decrease) in bills payable to banks</i>	(326)	1,420
<i>Net cash generated from/(used in) financing activities</i>	(2,081)	370
	=====	=====
NET INCREASE IN CASH AND CASH EQUIVALENTS	85	616
<i>Cash and cash equivalents At beginning of year</i>	(2,639)	(3,255)
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<i>Cash and cash equivalents At end of year*</i>	(2,554)	(2,639)
	=====	=====

**Cash and cash equivalents*

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

	2006 \$'000	2005 \$'000
<i>Cash and bank balances</i>	53	57
<i>Fixed deposits</i>	14	14
<i>Bank overdrafts (secured)</i>	(2,621)	(2,710)
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<i>Cash and cash equivalents</i>	(2,554)	(2,639)
	=====	=====

Members will note that for FY2006:

- a) "Net cash generated from operating activities" continued to be positive - \$1,807k (FY2005: \$244k).
- b) "Repayments 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 - \$1,624k (FY2005: \$939k)
- c) "Net increase in cash and cash equivalents" reflected net positive cash flows - \$85k (FY2005: \$616k)

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

By Order of the Board

Submitted by Ricky Paul Goh Moh Chye, Managing Director on 6 October 2006 to the SGX.