AUDITORS' REPORT

To the members of Yongnam Holdings Limited

We have audited the accompanying financial statements of Yongnam Holdings Limited (the "Company") and its subsidiaries (the "Group"), set out on pages 28 to 69 for the year ended 31 December 2004. 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 did not express an opinion on the financial statements for the year ended 31 December 2003 in our auditors' report dated 12 May 2004 due to the following reasons:

1. The auditors of a subsidiary, Yongnam Engineering Sdn Bhd ("YNESB"), reported that due to the termination and resignation of key accounting and finance personnel during and subsequent to the year ended 31 December 2003, the underlying accounting books and records of the subsidiary were incomplete and certain supporting accounting documents were not available. Accordingly, they were unable to obtain sufficient and appropriate audit evidence for the performance of the audit to enable them to express an opinion on the financial statements of the subsidiary. Consequently, we were also unable to assess the appropriateness of the financial statements of the subsidiary included in the consolidated financial statements.

2. Uncertainty of the ability of the Company and the Group to continue as going concerns.

As stated above, we were unable to satisfy ourselves as to the appropriateness of the financial statements of YNESB for the year ended 31 December 2003 that had been included in the consolidated financial statements of the Group for the year ended 31 December 2003. Since certain balance sheet items as at 31 December 2003 of YNESB would affect the determination of the other operating income ($21,045), general and administrative expenses ($2,553,604) and exceptional gain arising from issue of Malaysian settlement shares ($1,685,049) of YNESB, included in the consolidated profit and loss account of the Group in 2004, we were unable to determine whether adjustments to these accounts and opening accumulated losses of the Group might be necessary for the year ended 31 December 2004.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to assess the appropriateness of the other operating income, general and administrative expenses, exceptional gain and opening accumulated losses of the Group as discussed in the preceding paragraph:

(a) the consolidated financial statements of the Group and the balance sheets of the Group and Company are properly drawn up in accordance with the provisions of the Singapore Companies Act. Cap 50 (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 2004, the changes in equity of the Group and Company and of the results and cash flows of the Group for the year ended on that date; and

(b) the accounting and other records required by the Act to be kept by the Company and 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 Yongnam Holdings Limited

Without further qualifying our opinion, we draw attention to note 2(a) to the financial statements. The Group's current liabilities exceed its current assets by approximately $49.1 million. This factor raises substantial doubt that the Company and the Group are able to continue as going concerns.

As described in the note, the ability of the Company and the Group to continue as going concerns is dependent on the following:

(i) the Group continuing to receive support from its principal banker in relation to the banking facilities currently made available to the Group. The bank covenants include minimum repayments of $300,000 per month to service both interest and principal sum of the revolving short term loan;

(ii) the Group's ability to seek alternative financing for the long-term loan of $7.4 million granted by Hong Leong Finance ("HLF") in the event that HLF recalls the loan;

(iii) adequate project financing facilities available to fund existing and new projects secured by the Group; and

(iv) the Group's ability to secure additional new profitable contracts and generate positive cashflows.

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 sheets. In addition, the Company and the Group may have to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No such adjustments have been made to these financial statements.

ERNST & YOUNG
Certified Public Accountants

Singapore
24 March 2005

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

2. **Significant accounting policies**

(a) *Going concern assumption*

The Group's current liabilities exceed its current assets by approximately $49.1 million (2003: $77.9 million). The Group has total borrowings of approximately $70 million (2003: $79.4 million) as at 31 December 2004.

The Directors have carried out a number of measures during the current financial year to stabilise the Group's financial position. Certain steps taken were as follows:

(1) As announced by the Company on 20 November 2003, pursuant to an agreement with the UOB Group, the Group's outstanding facilities of approximately $57 million owing to the UOB Group in Singapore as at 31 December 2003 would be substituted with new banking facilities of $51.6 million comprising $50.9 million by way of a revolving short term loan and $0.70 million in the form of performance guarantees. The Group is required to make monthly repayment of $300,000 towards the principal sum and interest. During the year, the new banking facilities were effected. The details of the banking facilities are as discussed in Note 20 below.

Under the new banking facilities, UOB Group waived $5,834,015 of the 2003 debt and charged the new interest rates (1% + COF) retrospectively to reflect the new banking facilities' rate with effect from 1 April 2004.

(2) As further explained in notes 4 and 21 below, pursuant to the shareholders approval during the AGM held on 16 June 2004, the Company issued:

(a) 186,927,872 ordinary shares (rights issue) at the subscription price of $0.02 per shares with one free attached warrants for every two rights shares;

(b) 29,919,138 ordinary shares (fee capitalisation shares) in full settlement of approximately $1.1m of professional fees;

(c) 64,328,432 ordinary shares (loan and interest capitalisation shares) in full settlement of approximately $2.3m; and

(d) 22,213,785 ordinary shares (Malaysian settlement shares) in full discharge of approximately $2.2m of trade debts.

NOTES TO THE FINANCIAL STATEMENTS

31 December 2004

2. Significant accounting policies (cont'd)

(a) ***Going concern assumption (cont'd)***

The financial statements have been prepared assuming that the Company and the Group will continue as going concerns. The ability of the Company and the Group to continue as going concerns is dependent on several factors which include:

(i) the Group continuing to receive support from its principal banker in relation to the banking facilities currently made available to the Group. The bank covenants include minimum repayments of $300,000 per month to service both interest and principal of the revolving short term loan;

(ii) the Group's ability to seek alternative financing for the long-term loan granted by Hong Leong Finance ("HLF") of $7.4 million. The failure to secure title to the Springleaf property has resulted in a breach of the existing loan covenants imposed by HLF and HLF recalled the loan on 17 November 2004. On 13 December 2004, HLF agreed to withhold legal proceedings against the Group for 6 months until 12 June 2005, provided the Group fulfils certain conditions stipulated by HLF, including timely minimum payment of $35,000 per month for a period of 6 months towards repayment of the outstanding debt. In the event that HLF recalls the loan, the Group would have to seek alternative financing to repay HLF;

(iii) adequate project financing facilities available to fund existing and new projects secured by the Group; and

(iv) the Group's ability to secure additional new profitable contracts and generate positive cash flows.

The Directors believe that the working capital available to the Group as at the date of this report is sufficient for its present requirement.

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 its liabilities in the normal course of business and adjustments would have to be made to reflect the situation that the 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 sheets. In addition, the Company and the Group may have to reclassify non-current assets and non-current liabilities as current assets and liabilities. No such adjustments have been made to these financial statements.