

Report of the Directors

The Directors have the pleasure of presenting the first annual report together with the audited financial statements of I-Wood International Holdings Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st March, 2001.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 8th August, 2000 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). On 28th September, 2000, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation which included exchanges of shares in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited. The shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 23rd October, 2000.

Details of the group reorganisation and the basis of presentation of the financial statements are set out in Note 1 to the accompanying statements.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture, and sale of a wide range of wooden furniture products.

The Group's turnover by geographical location for the year ended 31st March, 2001 is analysed as follows:

	Turnover <i>HK\$'000</i>
Japan	164,988
Mainland China	21,721
Others	6,404
	193,113

Note: Others include Hong Kong, Malaysia and Singapore.

* *Turnover by geographical location is determined on the basis of the destination of delivery of merchandise.*

No analysis of profit before taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

The Group has only one business segment, which is the design, manufacture, and sale of wooden furniture products. Substantially all of the Group's assets are located in Mainland China.

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MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st March, 2001, the five largest customers accounted for approximately 46% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 34% of the Group's total purchases. The largest customer to the Group accounted for approximately 17% of the Group's total turnover while the largest supplier accounted for approximately 18% of the Group's total purchases.

None of the directors, their associates, or any shareholders (which, to the knowledge of the Directors, owned more than 5% of the Company's share capital) had a beneficial interest in the aforementioned major customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31st March, 2001 are set out in the consolidated income statement on page 15 of this annual report.

During the year, a subsidiary of the Company declared dividends totalling approximately \$20,098,000 to the then ordinary shareholders of the subsidiary prior to the aforementioned group reorganisation. The Directors do not recommend the payment of a dividend and recommend that the retained profit of approximately \$44,030,000 as at 31st March, 2001 be carried forward.

SUMMARY FINANCIAL INFORMATION

A summary of the Group's financial information for the last four financial years is set out on pages 42 to 43 of this annual report.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in share capital and share options of the Company are set out in Notes 19 and 20, respectively, to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 21 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 15 of this annual report.

As at 31st March, 2001, the Company's reserves of approximately \$55,591,000 (subject to provisions of the Companies Act 1981 of Bermuda (as amended)) were available for distribution to the Company's shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st March, 2001.

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PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 12 to the accompanying financial statements.

PROPERTY, MACHINERY AND EQUIPMENT

Details of movements in property, machinery and equipment during the year are set out in Note 11 to the accompanying financial statements.

BANK BORROWINGS

Particulars of bank borrowings as at 31st March, 2001 are set out in Note 17 to the accompanying financial statements.

RETIREMENT PLANS

Details of retirement plans are set out in Note 25 to the accompanying financial statements.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 3 to the accompanying financial statements constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Yau Kwai Tun	(Appointed on 15th August, 2000)
Mr. Hung Fan Wai, Wilfred	(Appointed on 15th August, 2000)
Mr. Ling Xiaohua	(Appointed on 10th July, 2001)

Independent non-executive directors

Mr. Li Chi Chung	(Appointed on 22nd September, 2000)
Mr. Lo King Yau, Edwin	(Appointed on 22nd September, 2000)

In accordance with the Bye-laws of the Company, Mr. Hung Fan Wai, Wilfred and Mr. Ling Xiaohua will retire from office and, being eligible, offer themselves for re-election. The remaining directors continue in office.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

During the year, each of the executive directors of the Company entered into service contracts with the Company for a term of two years commencing 1st October, 2000, which will continue thereafter until terminated by either party. Other than these service contracts, none of the Directors have an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS IN SHARES

As at 31st March, 2001, the interests of the Directors and their respective associates in the shares of the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company were as follows:

Name	Number of shares			Percentage of shares outstanding
	Personal interests	Family interests	Corporate interests	
Mr. Yau Kwai Tun	–	–	99,950,000	39.52%

Mr. Yau Kwai Tun is the sole shareholder of Wealth Vision Investments Limited ("WVIL"). WVIL holds the shares in the Company. Accordingly, Mr. Yau Kwai Tun is deemed to be interested in all shares in the Company held by WVIL.

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance as at 31st March, 2001.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

On 28th September, 2000, the Company adopted a share option scheme, under which it may grant options to employees of the Group (including executive directors of the Company) to subscribe for shares in the Company. Details of the scheme are set out in Note 20 to the accompanying financial statements. As at 31st March, 2001, Mr. Hung Fan Wai, Wilfred and Mr. Tsai Hung Ching had each been granted share options to subscribe for 6,322,500 shares in the Company at HK\$0.308 per share exercisable during the period from 1st December, 2000 to 31st March, 2004.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

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DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 3 to the accompanying financial statements, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which any of the Company or Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2001, according to the register kept by the Company under Section 16(1) of the SDI Ordinance, other than the directors of the Company, the following persons were interested or taken or deemed to be interested in 10% or more of the issued share capital of the Company:

Name	Number of issued shares	Percentage holding
Wealth Vision Investments Limited	99,950,000	39.52%
Wanderer Resources Limited	87,550,000	34.62%

Save as disclosed above, the Company had no notice of any interests representing 10% or more of the issued share capital of the Company which was required to be recorded under Section 16(1) of the SDI Ordinance as at 31st March, 2001.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

AUDIT COMMITTEE

The Company established an Audit Committee on 28th September, 2000 and formulated written terms of reference in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules. The members of the Committee are Mr. Li Chi Chung and Mr. Lo King Yau, Edwin, both being independent non-executive directors of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control of the Group. During the year, the Audit Committee met twice to discuss the financial reporting process and internal control of the Group.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period from 23rd October, 2000 (the date when the Company became listed on The Stock Exchange of Hong Kong Limited) to 31st March, 2001, except that the independent non-executive directors have not been appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Company's Bye-Laws.

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USE OF PROCEEDS

The proceeds from the issue of new shares for the listing on The Stock Exchange of Hong Kong Limited, after deduction of related expenses, amounted to approximately HK\$26,000,000 and have been applied, as follows:

	Original plan*	Amount utilised up to 31st March, 2001
	HK\$'000	HK\$'000
Development of e-commerce market for the Group's own branded "Ximengbao" products	4,000	–
Improvement of the research and design capability of the Group	4,000	2,500
Renovation and expansion of the production facilities through the purchase of new machinery and equipment	3,500	3,500
Improvement of market share in Mainland China and the Asia-Pacific Region, and development of the United States and European markets	3,000	2,000
Additional working capital of the Group	11,500	11,500
	26,000	19,500

* Amounts extracted from the Company's prospectus dated 10th October, 2000 issued for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

AUDITORS

The financial statements have been audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

Mr. Yau Kwai Tun

Chairman

Hong Kong,
10th July, 2001