



Report of the Auditors



To the members

Bestway International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 27 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants except that the scope of our work was limited as explained below. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the scope of our work was limited as follows:

Scope limitation – interest in subsidiaries

As further detailed in notes 16 and 26(c) to the financial statements, the Group subcontracted the entire operations of Shantou Plastics Decorative Materials Manufacturer., Ltd. and Zhanjiang Rich Ocean Plastics Ltd. (the "Loss Making Subsidiaries"), subsidiaries established and operating in the People's Republic of China (the "PRC"), to an independent third party and a joint venture party, respectively, forfeiting its share of the operating results of these entities in return for fixed guaranteed annual subcontracting fees with effect from 8 December 2000 and 1



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March 2001, respectively. Since the Group no longer exercises any control or influence over the financial and operating policy decisions of the Loss Making Subsidiaries, these entities have lost their status as subsidiaries of the Group and have been reclassified and accounted for as other investments from that date. The consolidated profit and loss account has consolidated the Loss Making Subsidiaries for the period from 1 April 2000 to the date when entire operations were subcontracted to the independent third party and the joint venture party (the “Periods”), based on the Loss Making Subsidiaries’ unaudited management accounts. The Loss Making Subsidiaries’ profit and loss accounts so consolidated in the Group’s financial statements are summarised in note 16 to the financial statements. We were unable to obtain sufficient information to satisfy ourselves that the amounts in respect of the Loss Making Subsidiaries so consolidated are fairly stated. Any adjustments to these amounts would affect the classification in the consolidated profit and loss accounts of the Group for the year ended 31 March 2001. To the extent that the consolidated turnover, cost of sales, other income and revenue, selling and distribution costs and administrative expenses might have required adjustment, there would be a corresponding opposite effect to the loss arising from reclassification of subsidiaries to other investments for the year ended 31 March 2001.

For the same reasons, we have been unable to satisfy ourselves that certain disclosures which had incorporated amounts in relation to the Loss Making Subsidiaries, including the analysis of amounts included in the Group’s loss from operating activities (note 5 to the financial statements), the assets and liabilities attributable to the Loss Making Subsidiaries reclassified to other investments (note 26(c) to the financial statements); and the corresponding cash flows arising from the operations of these Loss Making Subsidiaries prior to their reclassification, as included in the cash flow statements, are fairly stated.

Fundamental uncertainty relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 1 to the financial statements, the Group is currently undertaking a number of measures to relieve its current profitability and liquidity problems. The financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support of the Group’s banks and the attainment of profitable and positive cash flow operations. The financial statements do not include any adjustments that may be necessary should the implementation of such measures become unsuccessful.

We consider that appropriate disclosures have been made in the financial statements concerning this situation, but we consider that the inherent uncertainties surrounding the circumstances under which the Group might successfully continue to adopt the going concern basis are extreme, and accordingly, we have disclaimed our opinion.



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Disclaimer of opinion

Due to the significance of the fundamental uncertainty relating to the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 March 2001 and of the loss and cash flows of the Group for the year then ended and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Had we not disclaimed our opinion in respect of the foregoing going concern issue, we would have qualified our opinion by way of a modification containing an exception as to any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the accounting for the Loss Making Subsidiaries.

In respect alone of the limitation on our work as set out in the basis of opinion section of this report:

- (i) we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- (ii) we were unable to determine whether proper books of accounts had been kept.

Ernst & Young

Certified Public Accountants

Hong Kong

14 September 2001