

TO THE SHAREHOLDERS OF I-CHINA HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 22 to 67 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

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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 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 judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned 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 evidence available to us was limited as set out below:

1. As explained in our report dated 26th July, 2001 on the financial statements of the Group for the year ended 31st March, 2001, we were unable to obtain evidence to assess whether the Group's share of net assets of its associate, Seapower Resources International Limited ("SRI"), of HK\$126,918,000 was fairly stated as at 31st March, 2001. In respect of the year ended 31st March, 2002, we were unable to obtain sufficient evidence to satisfy ourselves as to whether the share of loss of SRI amounting to HK\$100,738,000, the loss on the partial disposal of SRI of HK\$37,338,000 and the share of post-acquisition reserve movements of SRI amounting to HK\$1,440,000 were fairly stated. Any adjustments to the Group's share of net assets of SRI as at 1st April, 2001 would affect the opening deficit of the Group as at 1st April, 2001 and the loss of the Group for the year ended 31st March, 2002. Any adjustments to either the share of loss of SRI or the loss on the partial disposal of SRI would affect the classification of the consolidated income statement for the year ended 31st March, 2002 on page 22 as between these amounts and the share of post-acquisition reserves of SRI as stated in note 30 to the financial statements.

2. We were unable to obtain sufficient documentary evidence to satisfy ourselves regarding the Group's ownership in the investment properties with an aggregate carrying value of HK\$147,800,000. Accordingly, we were unable to satisfy ourselves that the Group's investment properties were fairly stated in the consolidated balance sheet as at 31st March, 2002.
3. As explained in note 15, certain investment properties of the Group amounting to HK\$6,400,000 were seized by financial creditors during the year. The Directors have informed us that these seized properties have now been sold by the financial creditors for amounts in the aggregate of HK\$5,330,000, with bank and other borrowings being reduced by the same amount and resulting loss on disposal of HK\$1,070,000 being recognised in the consolidated income statement. However, we have been unable to obtain sufficient evidence to satisfy ourselves as to the validity of these disposals and the amount of the proceeds. Accordingly, we were unable to satisfy ourselves regarding the treatment adopted by the Directors in respect of these properties.
4. As explained in note 2(b), during the year, certain of the Group's investment properties amounting to HK\$20,540,000 were seized and disposed by the financial creditors and the proceeds of HK\$19,456,000 applied to reduce the balance of the borrowings owed by the Group to these financial creditors. However, the Directors were unable to obtain evidence regarding the selling and related expenses arising on these disposals. Accordingly, the Directors were unable to satisfy themselves as to whether the loss on disposal of such properties of HK\$1,084,000 for the year ended 31st March, 2002 and the residual balance of the bank and other borrowings of HK\$35,941,000 as at that date were fairly stated.
5. As explained in note 2(c) to the financial statements, included in the consolidated balance sheet were investment properties amounting to HK\$3,100,000 and land and buildings amounting to HK\$4,900,000 have been seized by the Group's financial creditors. However, the Directors were unable to ascertain whether these seized properties have been disposed by the financial creditors during the year and the proceeds applied to reduce the associated bank and other borrowings of the Group. Accordingly, the Directors were unable to satisfy themselves as to whether these properties were fairly stated in the consolidated balance sheet as at 31st March, 2002 and as to whether the residual balance of the bank and other borrowings of HK\$48,690,000 were fairly stated as at that date.
6. We were unable to obtain direct confirmation or other documentary evidence to satisfy ourselves as to whether the Group's outstanding bank and other borrowings of HK\$521,936,000 as at 31st March, 2002, the related interest expenses of HK\$67,314,000 for the year ended 31st March, 2002 and the balance of interest accrual of HK\$109,295,000 included in the item of "trade and other payables" in the consolidated balance sheet as at 31st March, 2002 were fairly stated.

Any adjustments to the above figures would as appropriate affect the net liabilities of the Group and of the Company as at 31st March, 2002 and the loss and cash flows of the Group for the year then ended.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTIES RELATING TO LITIGATION AND TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(a) to the financial statements which explains the current liquidity difficulties of the Group and which also explains that the Group is currently engaged in litigation with China Merchants Bank ("CMB") and Peregrine Brokerage Limited ("Peregrine").

All the Group's principal borrowings, including those from CMB and Peregrine, have become due for repayment. Against this background, the Directors are in the process of exploring with the Group's bankers and other lenders (together the "Financial Institutions") ways to restructure the Group's borrowings. Provided that the Financial Institutions, including CMB and Peregrine, continue to support the Group, and provided that there are no significant cash outflows arising from the proceedings in the litigation with CMB, the Directors consider that the Group will have sufficient financial resources to meet in full its financial obligations as they fall due for the foreseeable future.

The financial statements have been prepared on a going concern basis, the validity of which depends upon sufficient future funding being available. The financial statements do not include any adjustments that may result from the failure to obtain such funding. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainties relating to the future support of the Financial Institutions for the Group and the litigation with CMB, we disclaim our opinion in respect of the fundamental uncertainties relating to litigation and to the going concern basis.

DISCLAIMER OF OPINION

Because of the significance of the possible effect of the limitations in evidence available to us as set out in the basis of opinion section of this report and because of the significance of the fundamental uncertainties relating to litigation and 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 Company and of the Group as at 31st March, 2002 or 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.

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30th August 2002