

I am pleased, on behalf of the board of directors of I-Wood International Holdings Limited (the "Company") and its subsidiaries (the "Group"), to report to shareholders the audited results of the Group for the 15 months ended 30th June 2002.

BUSINESS REVIEW AND PROSPECTS

For the 15 months ended 30th June 2002, the Group's turnover dropped to HK\$151 million when compared to HK\$193 million for the 12 months ended 31st March 2001. The decline in turnover was mainly attributable to the global economic downturn which further hampered the consumption power.

The furniture business continued to be the Group's core business for the period under review, accounting for approximately 99% of the Group's total turnover. Japan is the Group's major market which accounted for approximately 79% of total furniture sales while the PRC accounted for the remainder. Due to the fierce competition and sluggish demand in both the Japanese and PRC markets, the furniture business was inevitably affected during the period under review.

The Group recorded a loss attributable to shareholders of HK\$26,829,000 for the 15 months ended 30th June 2002 when compared to the profit of HK\$41,719,000 reported for the 12 months ended 31st March 2001. Apart from the operating loss of approximately HK\$14,440,000 induced by the keen competition in the industry which ultimately squeezed the margins, the Group also recorded a loss on the disposal of a subsidiary amounting to HK\$12,389,000 during the review period.

In view of the poor performance in the Group's furniture business induced by the weak market sentiment, the Group has determined to discontinue its furniture manufacturing and trading operations in near future when appropriate opportunities arises. It plans to re-deploy its resources to maximize its returns. It is the Group's strategy to identify investment opportunities in the PRC to alleviate the risk raised from the furniture business. The investment in Best Paradise Assets Limited ("Best Paradise") in June 2002 demonstrates this strategy as it owns Pacific Cruises (Hainan) Limited ("Pacific Cruises").

Pacific Cruises owns and operates Ming Fai Princess which is a passenger cruise ferry which provides a passenger cruise ferry service in the South-eastern China. The penetration into the cruise business allowing the Group to diversify its business and to create an additional stream of revenue.

The route on which Ming Fai operates passenger cruise ferry service between Haikou in Hoi Nan, the PRC, via Beihai in Guangxi, the PRC, to Halong Bay in Vietnam. In view of the ever-increasing standards of living in the PRC, with GDP continues to grow, people are able to afford a higher quality of life. The passenger cruise business in the US and European markets have proven success, resulting in attractive performances. With the increasingly affluence of the Chinese, in particular in Southeast China, the cruising industry is an area with high growth

potential, and likely to generate stable income for the Group. The Group intends to expand the market share of this passenger cruise business while exploring other business opportunities in the PRC market.

LIQUIDITY AND FINANCIAL RESOURCES

With respect to foreign exchange exposure, as the Group's earnings and borrowings are primarily denominated in United States dollars and Renminbi and that the exchange fluctuation between United States dollars and Renminbi and Hong Kong dollar was steady during the year under review, it has no significant exposure to foreign exchange rate fluctuations. During the year under review, the Group has not used any financial instruments for hedging purposes.

As at 30th June 2002, the Group maintained a solid financial position with the cash and bank balances of approximately HK\$62 million. The Group had short term and long term bank loans of approximately HK\$19 million and HK\$4 million respectively. The gearing ratio stood at 0.98, as at 30th June 2002.

USE OF PROCEEDS

On 19th November 2001, the Group raised net proceeds of HK\$68 million from issue new shares and convertible bond. Approximately HK\$58.7 million has been used for acquiring 100% interest in Best Paradise Assets Limited, which owns a 51% interest in Pacific Cruises (Hainan) Limited, the operator of a cruise ship, Ming Fai Princess.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express gratitude to our shareholders, customers, banks and hard working colleagues for their support and contributions to the Group in the last fifteen months.

Yau Kwai Tun

Chairman

30th June 2002