

AUDITORS' REPORT TO THE SHAREHOLDERS OF
I-WOOD INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 15 to 65 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 the accounts which give a true and fair view. In preparing accounts 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 accounts 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 examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatement. However, the evidence available to us was limited in respect of certain major transactions entered into by the group as described in Note 3 to the accounts. We have not been able to obtain sufficient documentations relating to these transactions and therefore we have not been able to satisfy ourselves as to the propriety of these transactions and the adequacy of the related disclosures, including disclosures on related party transactions.

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

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 accounts concerning the group's ability to continue as a going concern. The accounts have been prepared on a going concern basis, the validity of which depends upon the success of the group's future operations in generating adequate cash flows for meeting all its liabilities and obligations. We consider that the fundamental uncertainty has been adequately accounted for and disclosed in the accounts and our opinion is not qualified in this respect.

Qualified opinion arising from limitation of audit scope

Except for any adjustments and/or disclosures that might have been found to be necessary had we been able to obtain sufficient evidence concerning the transactions referred to in the "Basis of opinion" paragraph, in our opinion, the accounts give a true and fair view of the state of affairs of the company and the group as at 30th June 2002, and of the loss and cashflows of the group for the fifteen months from 1st April 2001 to 30th June 2002, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

In respect alone of the limitation on our work relating to the matters described above:

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 30th October 2002