

AUDITORS' REPORT

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**Deloitte
Touche
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TO THE SHAREHOLDERS OF I-CHINA HOLDINGS LIMITED (Provisional Liquidators Appointed)

(incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong other than as set out below.

RESPECTIVE RESPONSIBILITIES OF PROVISIONAL LIQUIDATORS AND AUDITORS

The Company's Provisional Liquidators 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 financial statements and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants ("HKSA"), 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 Provisional Liquidators 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. Our report on the financial statements of the Group for the year ended 31 March 2002 was disclaimed in view of the pervasive nature of the limitations on the scope of our audit as explained in our audit report dated 30 August 2002.

We were unable to obtain sufficient documentary evidence to satisfy ourselves that the following balances as at 31 March 2002 included in the consolidated balance sheet were free from material misstatement:

- Investment properties of HK\$150,900,000;
- Land and buildings of HK\$4,900,000;

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- Interest in associates of Nil;
- Interest accruals of HK\$109,295,000 included in the item of “trade and other payables”; and
- Bank and other borrowings of HK\$521,936,000.

Any adjustments found to be necessary to the opening net liabilities of the Group would have a consequential effect on the opening reserves of the Group as at 31 March 2002 and on the loss of the Group for the year ended 31 March 2003. Also the comparative figures to the consolidated balance sheet as at 31 March 2002 shown on page 11 may not be comparable with the figures as at 31 March 2003. Similarly, the comparative figures to the consolidated income statement for the year ended 31 March 2002 shown on page 10 may not be comparable with the figures for the current year.

2. As explained in note 2(b) to the financial statements, the information available to the Provisional Liquidators in preparing the financial statements was limited. As a result, the Provisional Liquidators are unable to represent that all transactions entered into by the Company and its subsidiaries prior to their appointment are reflected in the books and records and in the financial statements. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to the completeness of identification and the appropriateness of disclosure in respect of the potential claims, the commitments, the contingent liabilities and the pledge of assets in the financial statements as at 31 March 2003.
3. As explained in note 2(b)(i) to the financial statements, due to the limited books and records available to the Provisional Liquidators, there is insufficient information for the Provisional Liquidators to satisfy themselves that all the amounts included in the consolidated income statement for the year ended 31 March 2003 were free from material misstatement. As a result, the Provisional Liquidators were unable to satisfy themselves as to the reliability of the related disclosure in the financial statements.
4. As explained in note 2(b)(ii) to the financial statements, the Provisional Liquidators are currently reviewing the validity of the claims by directors of the Company in respect of their emoluments of HK\$7,216,000. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these directors' emoluments for the year ended 31 March 2003 and the corresponding amount included in the amounts due to directors of the Group are the Company as at 31 March 2003 were free from material misstatement.
5. As explained in note 2(b)(iii) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to assess whether any allowance for doubtful debt is required in respect of short-term receivables of HK\$6,483,000 as at 31 March 2003. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these short-term receivables in the consolidated balance sheet as at 31 March 2003 were free from material misstatement.
6. As explained in note 2(b)(iv) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to obtain sufficient evidence to satisfy themselves as to the validity of other receivables of HK\$2,861,000 and HK\$53,000 included in the balance sheets of the Group and the Company respectively nor to assess whether any allowance for doubtful debt is required to be made in respect of these receivables. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these receivables in the balance sheets of the Group and the Company as at 31 March 2003 were free from material misstatement.

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7. As explained in note 2(b)(v) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to obtain bank statements or other documentary evidence in respect of bank balances and cash of the Group and the Company of HK\$931,000 and HK\$5,000 respectively as at 31 March 2003. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these bank balances and cash in the balance sheets of the Group and the Company as at 31 March 2003 were free from material misstatement.
8. As explained in note 2(b)(vi) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to obtain sufficient documentary evidence in respect of the amount of HK\$141,231,000 included in the item of “bank and other borrowings” as at 31 March 2003. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these borrowings in the consolidated balance sheet as at 31 March 2003 and the related interest expenses of HK\$8,188,000 for the year ended 31 March 2003 were free from material misstatement.
9. As explained in note 2(b)(vii) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to obtain sufficient documentary evidence in respect of the amount of HK\$1,513,000 included in the items of “amounts due to associates” as at 31 March 2003. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these amounts due to associates in the consolidated balance sheet as at 31 March 2003 were free from material misstatement.
10. As explained in note 2(b)(viii) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to obtain sufficient documentary evidence in respect of amounts due to directors of the Group and the Company of HK\$7,663,000 and HK\$7,361,000 respectively. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether these amounts due to directors of the Group and the Company as at 31 March 2003 were free from material misstatement.
11. As explained in note 2(b)(ix) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the Provisional Liquidators were unable to determine the appropriate amount to be transferred from the asset revaluation reserve account to deficit account as a result of the realisation of asset revaluation reserve upon disposal of the properties held by associates during the year ended 31 March 2002. Accordingly, the Provisional Liquidators were unable to satisfy themselves as to whether the asset revaluation reserve of HK\$223,734,000 as at 31 March 2003 and 2002; and the deficit of HK\$1,133,264,000 and HK\$949,539,000 as at 31 March 2003 and 2002 respectively in the consolidated balance sheet were free from material misstatement.

There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the matters set out in paragraphs 1 to 11 above. Any adjustments to the above figures would as appropriate affect the net liabilities of the Group and of the Company as at 31 March 2003 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.

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FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the disclosure made in note 2(a) to the financial statements which explains that the Company, acting through the Provisional Liquidators, entered into an agreement for the implementation of a restructuring proposal (the "Restructuring Agreement"), amongst others, with Wai Kee Holdings Limited on 20 November 2003. As at the date of this report, completion of the Restructuring Agreement will require the fulfillments of certain conditions including the relevant approvals from The Stock Exchange of Hong Kong Limited, the Securities and Futures Commission as well as the Supreme Court of Bermuda and the Court of First Instance of the High Court of Hong Kong. The Provisional Liquidators have prepared the financial statements on a going concern on the basis that the Restructuring Agreement will be implemented in full on completion and the restructured Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements do not include any adjustments that would result from the failure of proposed restructuring. We consider that appropriate disclosures have been made. However, in view of the extent of the uncertainty relating to the completion of the Restructuring Arrangement, we disclaim our opinion in respect of the fundamental uncertainty relating to the going concern basis.

QUALIFICATIONS ARISING FROM DISAGREEMENT ABOUT THE ACCOUNTING TREATMENT AND ABOUT THE EXTENT OF DISCLOSURE

- (1) The Group has the policy of including land and buildings in the balance sheet at valuation. However, as explained in note 15 to the financial statements, no valuation was performed as at 31 March 2003. This is not in accordance with the Group's accounting policy and Statement of Standard Accounting Practice ("SSAP") 17 "Property, plant and equipment" issued by the HKSA which requires that when the item of property, plant and equipment is stated at valuation, revaluations should be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. In the absence of a valuation being made of the Group's land and buildings, it is not practicable to quantify the effect of this departure on the amounts shown in the balance sheet for land and buildings.
- (2) As explained by the Provisional Liquidators in note 2(b)(x) to the financial statements, due to the limited books and records available to the Provisional Liquidators, the following required disclosures have not been made in the financial statements:
 - Details of deferred taxation disclosures as required by SSAP 12 "Accounting for deferred tax";
 - The carrying amount of land and buildings had the land and buildings are carried at cost less accumulated depreciation as required by SSAP 17 "Property, plant and equipment";
 - Details of related party disclosures as required by SSAP 20 "Related party disclosures";
 - Details of the retirement benefits scheme as required by SSAP 34 "Employee benefits"; and
 - Details of analysis of pledge of assets, contingencies and commitments as required by the Hong Kong Companies Ordinance.

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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 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 Company and of the Group as at 31 March 2003 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, 29 January 2004