

## **INDEPENDENT REVIEW REPORT**

### **TO THE BOARD OF DIRECTORS OF WAH LEE RESOURCES HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

### **INTRODUCTION**

We have been instructed by the Company to review the interim financial report for the six months ended 31 December 2000 as set out on pages 8 to 19.

### **DIRECTORS' RESPONSIBILITIES**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the cash flow statement included in the first interim financial report relating to accounting periods ending on or after 1 July 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

### **REVIEW WORK PERFORMED**

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

A review consists principally of making enquiries of the group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

The scope of the review was limited as set out below:

1. Our report on the financial statements of the Group for the year ended 30 June 2000 was disclaimed in view of the pervasive nature of the limitations in the scope of our audit resulting from the inability of the executive directors appointed on 10 December 2001 (the "Directors") to locate sufficient documentary information as explained in note 2(a) to the condensed financial statements. Accordingly, we were unable to form an opinion as to whether the net liabilities of the Group as at 30 June 2000 were fairly stated. Any adjustments to the opening balances of the Group as at 1 July 2000 would affect the net liabilities of the Group as at 31 December 2000 and the results of the Group for the six months then ended. Also the comparative figures to the consolidated balance sheet of the Group as at 30 June 2000 shown on page 9 may not be comparable with the figures as at 31 December 2000.

Similarly, because of the pervasive nature of the limitations in the scope of our review, we were unable to reach a review conclusion in respect of the consolidated income statement for the six months ended 31 December 1999. Accordingly, the comparative figures to the condensed consolidated income statement for the six months ended 31 December 2000 shown on page 8 may not comparable with the figures for the current period.

2. As explained by the Directors in note 2(b) to the condensed financial statements, the Directors have found that accounting records have been mislaid and accordingly have encountered the limitations referred to below in preparing the condensed financial statements:
  - (i) Turnover includes recorded sales of approximately HK\$2,900,000 in respect of which the Directors were unable to locate supporting delivery documentation. Accordingly, the Directors have been unable to satisfy themselves as to whether material modification is required to be made to sales as stated in the condensed financial statements.

(ii) Net loss for the period has been arrived at after charging/crediting the following amounts in respect of which the Directors were unable to locate third party supporting documentation:

- cost of sales of approximately HK\$2,800,000;
- other revenue of approximately HK\$500,000;
- provision for bad and doubtful debts of approximately HK\$13,000,000 in respect of amount transferred to or for the benefit of Liuzhou Wuling Holdings Limited;
- administrative expenses of approximately HK\$11,700,000;
- finance costs of approximately HK\$1,400,000; and
- provision for taxation written back of approximately HK\$9,800,000.

Accordingly, the Directors have been unable to satisfy themselves as to whether material modifications are required to be made to these amounts as stated in the condensed financial statements.

3. As explained by the Directors in note 2(c) to the condensed financial statements, the Directors were unable to obtain sufficient evidence to satisfy themselves as to whether:

- debts receivable of approximately HK\$15,700,000 recorded in the books of account are recoverable; and
- the Group has title to property, plant and equipment recorded in the books of account at approximately HK\$25,600,000.

In respect of the above amounts, provision has been made for the debts and the property, plant and equipment have been written off. However, in view of the lack of evidence available, the Directors have been unable to satisfy themselves regarding the appropriateness of this provision and write off.

4. As explained by the Directors in note 2(d) to the condensed financial statements, no management accounts or other financial information of certain subsidiaries were available to the Group for any period subsequent to 1 July 2000. On this basis the Directors have written off the aggregate recorded carrying amount of these subsidiaries as at 30 June 2000 in the sum of approximately HK\$3,300,000 during the six months ended 31 December 2000. However, in the absence of any other information as to when the Group lost effective control over these subsidiaries, the Directors have been unable to satisfy themselves as to the appropriateness of making this write off during the period.
5. As explained by the Directors in note 2(e) to the condensed financial statements, the Directors were unable to obtain sufficient evidence in respect of bank balances of approximately HK\$28,900,000 at 31 December 2000 so as to satisfy themselves as to whether material modification is required to be made to bank balances as stated in the condensed financial statements.
6. As explained by the Directors in note 2(f) to the condensed financial statements, the Directors were unable to satisfy themselves as to the completeness of accounts payable and accrued charges and borrowings of approximately HK\$8,800,000 and HK\$203,000,000, respectively, as at 31 December 2000. Accordingly, they were unable to satisfy themselves as to whether material modifications are required to be made to these amounts as stated in the condensed financial statements.
7. As explained by the Directors in note 2(g) to the condensed financial statements, the condensed financial statements have been prepared based on the available books and records maintained by the Group. However, in view of the lack of evidence available as described above, the Directors are unable to represent that all transactions entered into by the Group are reflected in the books and records and in the condensed financial statements.

Any adjustments to the above figures would as appropriate affect the net liabilities of the Group as at 31 December 2000 and the results of the Group for the six months then ended.

**DISAGREEMENT ABOUT THE EXTENT OF DISCLOSURE**

As explained in notes 5 and 7 to the condensed financial statements, segment information as required by Appendix 16 to the Listing Rules and diluted loss per share as required by SSAP 5 (Revised) "Earnings Per Share", respectively, have not been disclosed in the condensed financial statements.

**INABILITY TO REACH A REVIEW CONCLUSION**

Because of the significance of the possible effect of the limitations in evidence available to us, we are unable to reach a review conclusion as to whether material modifications that should be made to the interim financial report for the six months ended 31 December 2000.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 8 March 2002