

## **AUDITORS' REPORT**

To the shareholders of  
**Seapower Resources International Limited**  
(Provisional Liquidators Appointed)  
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 18 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### **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 statements 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 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 Group and the Company, 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 due to the following:

### **Scope limitations arising from audit scope limitations for the year ended 31 March 2001 affecting opening balances**

1. The former auditors issued an "Except For" qualified opinion on the financial statements of the Group and the Company for the year ended 31 March 2001 for the significance of possible effects of certain limitations on the scope of their audit as further detailed in their auditors' report dated 26 July 2001. In summary those scope limitations included:
  - (a) Neither sale and purchase agreement nor other necessary documentary evidence was available to confirm the validity of disposal of a former subsidiary which resulted in a recorded loss on the disposal of approximately HK\$3 million;
  - (b) Insufficient information to confirm the full provision of approximately HK\$27 million made against the outstanding receivable arising from the said disposal of that former subsidiary as referred to (a) above; and
  - (c) Insufficient information to confirm the carrying value of certain properties held for development in Indonesia of approximately HK\$54 million.

Any adjustments found to be necessary to the opening net assets of the Group and the Company would have a consequential effect on the accumulated losses and, for (c) as referred to above, the translation reserve, brought forward from the prior year, and on the net liabilities of the Group and the Company as at 31 March 2003.

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### Scope limitations arising from our audits for the two years ended 31 March 2003 and 2002

In addition, we issued a disclaimer opinion on the financial statements of the Group and the Company for the year ended 31 March 2002 due to the scope limitations for reasons as set out in our report dated 23 September 2003, which have continued to affect the current year's audits as explained below:

2. Ownership and carrying value for certain properties held for development in Indonesia

The Company's wholly-owned subsidiary, Seapower Developments (Indonesia) Limited ("SDI"), made investments in 111 lots of land in Indonesia which are held directly by 19 Indonesian trustees ("Trustees") as the registered title-owners on trust of the Group based on certain agreements made. During the year ended 31 March 2003, a legal opinion had been obtained by the Provisional Liquidators of the Company, which indicates that although SDI may have the rights, based on the certain agreements made with the Trustees, it currently does not have the legal title of the land.

We have been unable to obtain confirmation directly from these Trustees whether these properties are still held on trust of the Group and to satisfy ourselves as to whether SDI can exercise its rights to obtain the legal title of the land.

In addition, the Group had fully provided for the carrying value of the land of approximately HK\$53,141,000 and written off the related translation reserve of approximately HK\$6,900,000, as referred to note 15(b) to the financial statements, by charging an impairment loss of approximately HK\$60,041,000 to the consolidated income statement for the year ended 31 March 2002 on the basis that the Group may not be able to obtain the title of the land.

There were no other satisfactory auditing procedures that we could adopt to satisfy ourselves regarding the ownership of the land and whether the full provision for the impairment loss of the land previously made in the last year was appropriate. Any adjustment to the amounts would have a consequential effect on the Group's net liabilities as at 31 March 2003, the accumulated losses and translation reserve of the Group brought forward from the last year.

3. Prior year's loss and provision for outstanding receivable arising from the sale of a former subsidiary

As more detailed in the former auditors' report dated 26 July 2001 for the financial statements for the year ended 31 March 2001, there was neither sale and purchase agreement nor other information for confirming the sale of a former subsidiary and consequently, the loss of approximately HK\$3 million on the disposal, and there were no sufficient evidence and explanations for assessing the appropriateness of making full provisions for the outstanding receivable of approximately HK\$27 million arising from the sale of the former subsidiary previously made in the prior years.

In respect of our audits for the years ended 31 March 2003 and 2002, the same scope limitations as noted by the former auditors in respect of their audit for the year ended 31 March 2001 as referred to in the preceding paragraph have continued to exist and consequently, we have been unable to confirm the prior year's disposal loss of approximately HK\$3 million and whether the full provision for the outstanding receivable arising from the disposal of the former subsidiary of approximately HK\$27 million previously made for the year ended 31 March 2001 was appropriate and still required at the balance sheet date. Any adjustments to these amounts would have a consequential effect on the net liabilities position of the Group and the Company as at 31 March 2003 and the accumulated losses of the Group and the Company brought forward from the prior years.

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4. Certain margin and other loans receivable of approximately HK\$240 million

There are certain margin and other loans receivable of approximately HK\$171 million and HK\$69 million recorded respectively in the accounts of the Company and Seapower Finance Limited, its wholly-owned subsidiary, for which full provisions had been made in the previous years. We have been unable to carry out auditing procedures to confirm the completeness and accuracy of these margin and other loans receivable for which we have also been unable to obtain sufficient documentary evidence and explanations necessary for assessing their recoverability. Therefore, we have been unable to confirm the carrying value of the margin and other loans receivable and whether the provisions previously made were appropriate and still required at the balance sheet date. Any adjustments to these amounts of provisions previously made would have a consequential effect on the net liabilities position of the Group and the Company as at 31 March 2003 and the accumulated losses of the Group and the Company brought forward from the prior years.

5. Interests in an associate

The Group made investment of approximately HK\$53 million in one associate, namely P.T. Inatai Golden Furniture Industries in which the Group has equity interests of 32%, against which full provision had been made in the prior years. The Group has no significant influence on the operational and financial decisions of this associate and as such, equity method had been discontinued for accounting the Group's share of results and the interests in this associate in the previous years. There were neither audited financial statements nor financial information available concerning the financial position of this associate. We have been unable to confirm the existence, ownership and carrying value of the interest in this associate and whether the provisions previously made by the Group were appropriate and still required at the balance sheet date. Any adjustment to this amount of the provision would have a consequential effect on the Group's net liabilities as at 31 March 2003 and the accumulated losses of the Group brought forward from the prior years.

6. Deposits paid for two other investments

The Company made aggregate payments of approximately HK\$34.5 million for the investments in two companies, namely Fujian Tel Network and 廣州粵鋼物資供應有限公司, against which full provisions had been made in the prior years. We have been unable to obtain the documentary evidence for ascertaining the commercial substance of these two payments and sufficient information and representation necessary for assessing the recoverability of these deposits. Therefore, we have been unable to satisfy ourselves as to whether the full provisions for these deposits previously made were appropriate and still required at the balance sheet date. Any adjustments to these provisions would have a consequential effect on the net liabilities of the Group and the Company as at 31 March 2003 and the accumulated losses of the Group and the Company brought forward from the last year.

7. Fundamental uncertainty relating to the going concern basis of the Group

In forming our opinion, we have considered the adequacy of the disclosures made on note 2(b) to the financial statements concerning the basis of their preparation by the Provisional Liquidators of the Company. As more fully disclosed in note 2(b) to the financial statements, the Group's financial statements have been prepared on a going concern basis, the validity of which is dependent on the successful completion in full of the terms and conditions of the conditional restructuring agreement made by the Provisional Liquidators, on behalf of the Company, with an investor on 14 May 2003 ("Restructuring Agreement") as detailed in note 32(a) to the financial statements and, in particular:

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- (i) that issuance of certain new shares of the Company to the investor at the consideration of HK\$46 million ("Subscription Proceeds"), pursuant to the subscription agreement as a part of the Restructuring Agreement, will be completed;
- (ii) that indebtedness of the Company's creditors (other than the preferential creditors) to be discharged in full, pursuant to the schemes under debt restructuring as part of the Restructuring Agreement, at the consideration of making distribution to the scheme creditors on the pro-rata basis which comprises a cash payment of HK\$38 million from the above-mentioned Subscription Proceeds plus any cash held by the Company on the completion date, and issuance of 96,000,000 new shares of the Company; and
- (iii) that working capital facilities to be provided and procured by the investor to the Company, at terms to be agreed from time to time, such that the Group will have sufficient working capital for its operations for a period of 12 months after the completion of the Restructuring Agreement.

The Provisional Liquidators consider that the Restructuring Agreement can be completed in accordance with its terms, but at this stage, there is insufficient evidence to confirm whether the terms and conditions of the conditional Restructuring Agreement can be completed in full. The financial statements do not include any adjustments that would result from the failure of the said conditional Restructuring Agreement.

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.

### DISCLAIMER OF OPINION

Because of the significance of each of (a) the fundamental uncertainty relating to the going concern basis of the Group and (b) the possible effect of the limitations in evidence available to us as referred to in the basis of opinion section of this report, 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.

Without further qualifying our opinion, we draw attention to the fact that because our opinion dated 23 September 2003 on the financial statements in respect of the Group and the Company for the prior year ended 31 March 2002 was disclaimed on the account of various scope limitations for reasons as referred to that report for the year ended 31 March 2002, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

**Charles Chan, Ip & Fung CPA Ltd.**

*Certified Public Accountants*

Hong Kong

23 September 2003

**Chan Wai Dune, Charles**

Practising Certificate Number P00712