



SEAPOWER RESOURCES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2003

RESULTS

The Board of Directors (“Directors”) of Seapower Resources International Limited (“Company”) announces the unaudited consolidated results of the Company and its subsidiaries (“Group”) for the six months ended 30 September 2003 and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2003. The unaudited interim financial report for the six months ended 30 September 2003 has been reviewed by the Company’s Independent Accountants.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September

	<i>Notes</i>	2003 <i>HK\$'000</i> (Unaudited)	2002 <i>HK\$'000</i> (Unaudited)
Turnover		5,002	7,628
Direct operating expenses		(3,854)	(6,018)
Other revenue		208	208
Other income		1,605	2,393
Selling and administrative expenses		(4,160)	(11,340)
Gain on disposal of leasehold properties		—	9,104
Gain on disposal of subsidiaries		—	656
Other operating expenses	6	(1,930)	(3,875)
Loss from operations		(3,129)	(1,244)
Finance costs		(23,298)	(25,324)
Loss before taxation		(26,427)	(26,568)
Taxation — (charge)/credit	7	(7,427)	2,542
Loss after taxation		(33,854)	(24,026)
Minority interests		18	—
Net loss attributable to shareholders		(33,836)	(24,026)
Loss per share — basic	9	(2.19 cents)	(1.55 cents)

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September	31 March
		2003	2003
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	19,592	20,298
CURRENT ASSETS			
Trade and other receivables	11	23,233	14,708
Other investments		52	52
Restricted bank deposits		1,692	1,692
Cash and bank balances		5,779	6,648
		30,756	23,100
CURRENT LIABILITIES			
Trade and other payables	12	184,573	151,533
Amount due to a jointly controlled entity		1,007	1,007
Taxation payable		32,876	26,302
Bank and other borrowings		515,835	515,584
Amounts due to subsidiaries under liquidation		652,554	652,553
		1,386,845	1,346,979
NET CURRENT LIABILITIES		(1,356,089)	(1,323,879)
TOTAL ASSETS LESS CURRENT LIABILITIES		(1,336,497)	(1,303,581)
MINORITY INTERESTS		(491)	(509)
		(1,336,988)	(1,304,090)
CAPITAL AND RESERVES			
Share capital	13	77,352	77,352
Reserves		(1,414,340)	(1,381,442)
		(1,336,988)	(1,304,090)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 September 2003*

	Issued capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Asset revaluation reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	77,352	432,722	3,800	50,867	11,670	(1,823)	(1,826,843)	(1,252,255)
Exchange differences arising from translation of overseas operations	—	—	—	—	—	(88)	—	(88)
Revaluation surplus	—	—	—	—	2,882	—	—	2,882
Realised on disposals of properties	—	—	—	—	(7,031)	52	—	(6,979)
Net loss for the year	—	—	—	—	—	—	(47,650)	(47,650)
At 31 March 2003 and 1 April 2003	77,352	432,722	3,800	50,867	7,521	(1,859)	(1,874,493)	(1,304,090)
Revaluation surplus	—	—	—	—	543	—	—	543
Exchange differences arising from translation of overseas operations	—	—	—	—	—	395	—	395
Net loss for the period	—	—	—	—	—	—	(33,836)	(33,836)
At 30 September 2003	77,352	432,722	3,800	50,867	8,064	(1,464)	(1,908,329)	(1,336,988)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2003

	2003	2002
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,144)	(13,884)
NET CASH INFLOW FROM INVESTING ACTIVITIES	1,430	24,096
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(322)	(14,640)
DECREASE IN CASH AND CASH EQUIVALENTS	(1,036)	(4,428)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	167	13
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>6,648</u>	<u>7,896</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>5,779</u></u>	<u><u>3,481</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies

The condensed consolidated financial statements have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, properties held for development, cold storage warehouses, other land and buildings and certain investments in securities.

The accounting policies and basis of preparation adopted for the preparation of the interim financial report are consistent with those adopted by the Group in its annual financial statements for the year ended 31 March 2003, except that the Group has adopted the revised SSAP 12 "Income Taxes" issued by the Hong Kong Society of Accountants which is effective for accounting period commencing on or after 1 April 2003 to account for deferred taxation.

In previous years, deferred taxation was accounted for in respect of timing differences between profits as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or receivable in the foreseeable future. Pursuant to the revised SSAP 12, deferred taxation is provided in full, using the liability method, for all temporary differences arising between the tax base of assets and liabilities and their carrying values in the accounts. Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised.

The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. This change in accounting policy has not had any significant impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

2. Basis of Preparation

In preparing the unaudited interim financial report, the Directors of the Company have given careful consideration to the future liquidity of the Group in light of the Group's current financial difficulties including its net liabilities of approximately HK\$1,337 million as at 30 September 2003.

A conditional restructuring agreement in relation to the restructuring proposal for the Company was entered into with an independent third party investor, Many Returns Limited ("MRL"), ("Restructuring Proposal") on 14 May 2003 ("Restructuring Agreement"). On 11 August 2003, the Restructuring Agreement was amended by a supplemental agreement, and on the same date, the former Provisional Liquidators on behalf of the Company entered into with MRL a subscription agreement in relation to the subscription of new shares by MRL upon completion of the Restructuring Proposal. The Restructuring Proposal includes, inter alia, a capital restructuring, debt restructuring involving Schemes of Arrangement ("Schemes") and subscription of new shares and warrants.

Subsequent to the balance sheet date, the Restructuring Agreement was completed on 5 December 2003. Upon completion of the Restructuring Agreement on 5 December 2003, net liabilities of approximately HK\$664 million had been excluded from the Group and debts of approximately HK\$657 million had been compromised and discharged pursuant to the Schemes approved by the creditors and shareholders of the Company and sanctioned by the Courts of both the Cayman Islands and Hong Kong, and the Group's net tangible assets improved to approximately HK\$18 million.

MRL has agreed to provide and procure working capital for the Company such that the Group will have sufficient working capital for its operations for 12 months after the completion of the Restructuring Agreement.

In light of the above, the Directors of the Company have prepared the unaudited interim financial report on a going concern basis on the basis that the Group will have sufficient working capital to carry on its business.

3. The Independent Accountants' Review Report

The Independent Accountants have reviewed the unaudited interim financial statements for the six months ended 30 September 2003 which does not constitute an audit.

The Independent Accountants have considered that the basis of going concern basis for the preparation of the interim financial report has been adequately disclosed in note 2 above.

The Independent Accountants were not able to reach a review conclusion as to whether material modifications that should be made to the interim financial report for the six months ended 30 September 2003 because of the following matters.

The Auditors issued a disclaimer opinion on the financial statements of the Group and the Company for the year ended 31 March 2003 for reason as set out in their report dated 23 September 2003, which have continued to affect the review of the Independent Accountants for the current period ended 30 September 2003. The evidence of certain items available to the Independent Accountants was limited as follows:

- (a) 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:
 - (i) 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;
 - (ii) 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 (i) above; and
 - (iii) 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 (iii) 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 30 September 2003.

(b) 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. A legal opinion had been obtained by the former 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.

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

There were no other satisfactory procedures that the Independent Accountants could adopt to satisfy themselves regarding the ownership of the land and whether the full provision for the impairment loss of the land previously made in prior years was appropriate. Any adjustment to the amounts would have a consequential effect on the Group's net liabilities as at 30 September 2003, the accumulated losses and translation reserve of the Group brought forward from the prior years.

(c) 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 available and consequently, the loss of approximately HK\$3 million on the disposal, and there were no sufficient evidence and explanations available 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 made in the prior years.

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 continue to exist and consequently, the Independent Accountants 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 30 September 2003 and the accumulated losses of the Group and the Company brought forward from the prior years.

(d) Certain margin and other loans receivable of approximately HK\$240 million

There are certain margin and other loans receivable totaling 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. The Independent Accountants have been unable to confirm the completeness and accuracy of these margin and other loans receivable for which the Independent Accountants have also been unable to obtain sufficient documentary evidence and explanations necessary for assessing their recoverability. Therefore, the Independent Accountants 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 30 September 2003 and the accumulated losses of the Group and the Company brought forward from the prior years.

(e) Interests in an associate

The Group made investment of approximately HK\$53 million in an 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. The Independent Accountants 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 30 September 2003 and the accumulated losses of the Group brought forward from the prior years.

(f) 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 廣州粵網物資供應有限公司, against which full provisions had been made in the prior years. The Independent Accountants 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, the Independent Accountants have been unable to satisfy themselves 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 30 September 2003 and the accumulated losses of the Group and the Company brought forward from the prior years.

Any adjustments to the above amounts as at 30 September 2003 would affect the net liabilities of the Group as at 30 September 2003 and the results of the Group for the six months ended 30 September 2003.

Without further qualifying their review conclusion, the Independent Accountants drew attention to the post balance sheet events as set out in note 15(a) to (d) to the interim financial report.

4. Business And Geographical Segment Information

Business Segments

For the six months ended 30 September 2003

	Cold storage warehousing and logistics management <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
External revenue	5,002	—	5,002
Other revenue	<u>23</u>	<u>185</u>	<u>208</u>
Total revenue	<u><u>5,025</u></u>	<u><u>185</u></u>	<u><u>5,210</u></u>
SEGMENT RESULTS	<u><u>(991)</u></u>	<u><u>(68)</u></u>	(1,059)
Unallocated costs			(2,070)
Finance costs			(23,298)
Taxation — charge			(7,427)
Minority interests			<u>18</u>
Loss attributable to shareholders			<u><u>(33,836)</u></u>

For the six months ended 30 September 2002

	Cold storage warehousing and logistics management <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
External revenue	7,628	—	7,628
Other revenue	<u>204</u>	<u>4</u>	<u>208</u>
Total revenue	<u><u>7,832</u></u>	<u><u>4</u></u>	<u><u>7,836</u></u>
SEGMENT RESULTS	<u><u>4,353</u></u>	<u><u>(48)</u></u>	4,305
Unallocated costs			(5,549)
Finance costs			(25,324)
Taxation — credit			2,542
Minority interests			<u>—</u>
Loss attributable to shareholders			<u><u>(24,026)</u></u>

Geographical Segment

For the six months ended 30 September 2003

	Hong Kong and PRC HK\$'000	Australia HK\$'000	Consolidated HK\$'000
REVENUE			
External revenue	—	5,002	5,002
Other revenue	185	23	208
Total revenue	<u>185</u>	<u>5,025</u>	<u>5,210</u>
SEGMENT RESULTS	<u>(2,004)</u>	<u>(1,125)</u>	<u>(3,129)</u>

For the six months ended 30 September 2002

	Hong Kong and PRC HK\$'000	Australia HK\$'000	Consolidated HK\$'000
REVENUE			
External revenue	—	7,628	7,628
Other revenue	201	7	208
Total revenue	<u>201</u>	<u>7,635</u>	<u>7,836</u>
SEGMENT RESULTS	<u>(9,623)</u>	<u>8,379</u>	<u>(1,244)</u>

5. Depreciation And Amortisation

During the period, depreciation and amortisation of approximately HK\$787,000 (for the six months ended 30 September 2002: HK\$1,010,000) was charged in respect of the Group's property, plant and equipment.

6. Other Operating Expenses

Other operating expenses comprise:

	For the six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Restructuring cost	1,704	—
Loss on disposal of club membership	—	1,340
Loss on disposal of listed investment	—	443
Provision for bad and doubtful debts	212	2,076
Others	14	16
	<u>1,930</u>	<u>3,875</u>

7. Taxation — (Charge)/Credit

	For the six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Deferred taxation	(850)	46
(Under)/over-provision for Hong Kong Profits Tax in prior years	(6,577)	2,496
	<u>(7,427)</u>	<u>2,542</u>

8. Dividend

No dividend was declared and paid during either period.

9. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$33,836,000 (for the six months ended 30 September 2002: HK\$24,026,000) and on 1,547,042,829 shares in issue for both periods.

Diluted loss per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 September 2003.

10. Property, Plant And Equipment

Among other movements, during the six months ended 30 September 2003, the Group disposed of properties with a carrying amount of approximately HK\$1.2 million for a total consideration (net of expenses) of approximately HK\$1.2 million, resulting in no gain or loss.

No impairment losses were recognised in respect of investment properties and property, plant and equipment for both periods.

11. Trade And Other Receivables

Included in the balances as at 30 September 2003 were escrow deposit of approximately HK\$10 million received from MRL in relation to the Restructuring Agreement and approximately HK\$8 million being proceeds from realization of assets of the Group received by the former Provisional Liquidators on behalf of the Group.

The Group allows average credit period of 60 days to its trade customers.

Details of the ageing analysis of trade receivables are as follows:

	30 September 2003	31 March 2003
	HK\$'000	HK\$'000
0 — 30 days	678	1,138
31 — 60 days	194	417
61 — 180 days	62	227
More than 180 days	120	37
	<u>1,054</u>	<u>1,819</u>

12. Trade And Other Payables

Details of the ageing analysis of trade payables are as follows:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
0 — 30 days	334	680
31 — 60 days	90	98
61 — 90 days	62	2
More than 90 days	61	139
	<u>547</u>	<u>919</u>

13. Share Capital

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
<i>Authorised:</i>		
20,000,000,000 ordinary shares of HK\$0.05 each	<u>1,000,000</u>	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
1,547,042,829 ordinary shares of HK\$0.05 each	<u>77,352</u>	<u>77,352</u>

14. Charges On Assets

At the balance sheet date, the following assets of the Group have been pledged to secure credit facilities granted to and utilised by the Group:

	30 September 2003 HK\$'000	31 March 2003 HK\$'000
Property, plant and equipment	17,651	16,802
Other investments	52	52
Restricted bank deposits	1,692	1,692
	<u>19,395</u>	<u>18,546</u>

15. Post Balance Sheet Events

Subsequent to the balance sheet date, the Group has the following significant events:

- (a) The Company held an Extraordinary General Meeting (“EGM”) on 14 November 2003 in relation to the Restructuring Agreement. At the EGM, all the resolutions were voted against by a dissenting shareholder holding in aggregate approximately 40% in value of those who were present and voting in person or by proxy at that EGM. Thus, the requisite percentage of 75% for passing of the special resolutions numbered 1 and 11 (related to the reduction of the Company’s share capital and removal of the then existing directors of the Company respectively) were not passed. On the same date after the EGM, application was made to the Cayman Islands Court to set aside the votes cast by the dissenting shareholder at the EGM. The Cayman Islands Court ordered to set aside the votes of the dissenting shareholder and therefore, the special resolutions numbered 1 and 11 were passed at the EGM. Further details were set out in the Company’s announcement dated 27 November 2003.
- (b) On 14 November 2003, the Hong Kong Court has sanctioned the Schemes in relation to the Company under section 166 of the Companies Ordinance, which was approved by the shareholders and the creditors. On the same date (Hong Kong time), the Cayman Islands Court also sanctioned the Schemes under section 86 of the Cayman Island Companies Law, which was approved by the shareholders and the creditors, and the capital reduction of the Company (see note (a) above).

- (c) On 27 November 2003, the dissenting shareholder (as referred to (a) above) filed an ex parte application to the Court of Appeal in the Cayman Islands ("Court of Appeal") for leave to appeal against the decision of the Cayman Islands Court to set aside the votes of the dissenting shareholder. On 8 December 2003, the Company received an ex parte summons from the dissenting shareholder which set out that a court hearing of the application made by the dissenting shareholder on 27 November 2003 for the leave to appeal against the order made by the Cayman Islands Court will be held on 28 January 2004. Further details were disclosed in the Company's announcements dated 5 December 2003 and 12 December 2003. The former Provisional Liquidators' legal counsel has advised that there are good prospects of the Court of Appeal upholding the appeal and the completion of the Restructuring Agreement will unlikely be overturned. The Directors consider and rely on the advice provided to the former Provisional Liquidators by their legal counsel and consider that the completion of the Restructuring Agreement will not be overturned.
- (d) On 5 December 2003, the Restructuring Agreement was completed. On the same date, MRL placed 1,245,000,000 new shares of the Company (representing 26% of the enlarged issued capital of the Company upon completion of the Restructuring Agreement). On the same date, the former Provisional Liquidators were released and discharged in accordance with the orders dated 14 November 2003 by the Courts of both the Cayman Islands and Hong Kong, respectively. Details are disclosed in the Company's announcement dated 5 December 2003.

16. Related Party Transactions

Details of significant related party transactions during the interim reporting period are as follows:

	For the six months ended 30 September	
	2003	2002
	HK\$'000	HK\$'000
Interest income receivable from the I-China Group	184	188

Interest income was calculated with reference to prevailing market interest rates.

- (b) The Group's bank borrowings amounting to approximately HK\$36 million (31 March 2003: HK\$35 million) were guaranteed by I-China Holdings Limited (Provisional Liquidators Appointed) ("I-China").

17. Contingent Liabilities

On 22 June 2002, the former Provisional Liquidators, on behalf of the Company, entered into a restructuring agreement regarding the restructuring proposal as amended by a supplemental agreement dated 3 October 2002, and a subscription agreement dated 13 November 2002 (collectively "Former Agreements"), with the former investors ("Former Investors"). The Former Agreements were subsequently terminated as the Former Investors breached the stipulated terms. The non-refundable deposits of approximately HK\$2,001,000 and contributions paid for the administrative expenses of approximately HK\$1,260,000 were forfeited by the Company and credited to the income statement as other income for the year ended 31 March 2003.

On 30 July 2003, the Former Investors applied to the Court for leave to commence proceedings against the Company. On 2 October 2003, the Court dismissed the application of the Former Investors and refused to grant them with leave to commence proceedings against the Company.

The Former Investors filed a notice of appeal on 14 October 2003 in respect of the order made by the Court on 13 October 2003 ("Order"). The former Provisional Liquidators of the Company, their legal advisor and counsel reviewed the notice of appeal filed by the Former Investors and confirmed their earlier advice that the former Provisional Liquidators were entitled to terminate the Former Agreements and that the Former Investors have no grounds upon which they could successfully appeal against the Order and accordingly, no provision for the claim is made in the condensed consolidated financial statements. The court hearing of the appeal will be held on 30 January 2004.

DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

BUSINESS REVIEW

The Group was originally engaged in cold storage warehousing, logistics management services, property holding and financial services. Following the appointment of the former Provisional Liquidators on 31 December 2001, the Group's non-core business operations were discontinued and only the core businesses of cold storage warehousing and logistics management services have been maintained, albeit on a lesser scale than in previous years, as the Group is suffering from a lack of working capital.

For the six months ended 30 September 2003, the Group recorded a consolidated turnover of approximately HK\$5 million which was attributable to the cold storage warehousing and logistics management businesses.

The net loss for the period was approximately HK\$34 million. The loss from operations was approximately HK\$3 million for the period, compared with approximately HK\$1 million for the six months ended 30 September 2002.

CAPITALIZATION AND FINANCIAL POSITION

The Group's net liabilities approximated HK\$1,337 million as at 30 September 2003 (31 March 2003: HK\$1,304 million). Cash and bank balances and total bank and other borrowings approximated to HK\$7 million (31 March 2003: HK\$8 million) and HK\$516 million (31 March 2003: HK\$516 million), respectively, as at the balance sheet date. The Group's borrowings from creditor banks were not repaid according to the schedules set by the creditor banks and, became due for immediate repayment. As a result, the entire amounts outstanding were reclassified as current liabilities.

Bank and other borrowings were predominately in Hong Kong dollars approximately 7% of these bank and other borrowing are in US and Australian dollars. As a result, foreign exchange risk is minimal. Bank and other borrowings were subject to floating interest rates. The Group did not use financial instruments for hedging purposes and did not have foreign currency net investments being hedged by currency borrowings and other hedging instruments.

RESTRUCTURING OF THE GROUP

On 5 December 2003, the Restructuring Agreement was completed and upon completion of the Restructuring Agreement, the authorized capital of the Company was reduced to HK\$100 million divided into 10 billion new shares. The par value of new share of the Company was reduced to HK\$0.01 each. While the Company's issued capital was increased to approximately HK\$48 million divided into approximately 4.8 billion new shares. On the same date, MRL, the new substantial shareholder of the Company subscribed 4.6 billion new shares and then placed 1,245,000,000 new shares of the Company (representing 26% of the enlarged issued capital of the Company upon completion of the Restructuring Agreement). On the same date, the former Provisional Liquidators were released and discharged in accordance with the orders dated 14 November 2003 by the Courts of both the Cayman Islands and Hong Kong, respectively. All the then existing directors during the period were removed and two new executive directors and two new independent non-executive directors were appointed to the board of the Company. Trading in the shares of the Company was suspended since 2:30 p.m. on 28 December 2001 and has been resumed on 15 December 2003.

PROSPECTS

Upon implementation and completion of the Restructuring Agreement, the financial position of the Company will be improved as all liabilities of the Company will be compromised and discharged through the Schemes under the Restructuring Proposal. The Group will also have the necessary financial resources and working capital for on-going operations.

DIRECTORS' INTEREST IN SECURITIES

Save as disclosed below, none of the directors of the Company and their associates had any interest in the securities of the Company and its associated corporations as at 30 September 2003, within the meaning of the Securities and Futures Ordinance ("SFO"), which were required to be notified to the Company and the Stock Exchange pursuant to section 341 of the SFO (including interests which they were deemed or taken to have under section 344 of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Name	Type of interest	Number of shares held
Ms. Shirley Choi Siu Lui (<i>former director</i>)	Personal interests	500,000
Mr. Choi Sai Leung (<i>Mr Choi</i>) (<i>former director</i>) (<i>Note</i>)	Personal interests	9,000,000

Note: Mr. Choi was declared bankrupt by the High Court of Hong Kong on 3 April 2002 and vacated on 3 April 2002.

DIRECTORS' INTERESTS IN I-CHINA

As at 30 September 2003, the interests of the directors of the Company and their associates in I-China, within the meaning of SFO, which were required to be notified to the Company and Stock Exchange pursuant to section 341 of the SFO (including interest which they were deemed or taken to have under section 344 of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Shares in I-China

Name of Director	Type of interests	Number of shares held
Mr. Choi	Other interests	127,144,278 (<i>Note</i>)

Note: This represents the deemed interest of Mr. Choi in 127,144,278 shares in I-China held by Norham as at 30 September 2003. Norham was the asset of a discretionary trust, the Celleroy Trust. Mr. Choi, being the sole shareholder and sole director of the trustee, Celleroy, was deemed to have an interest in these shares.

Mr Choi was declared bankrupt by the High Court of Hong Kong on 3 April 2002 and vacated on 3 April 2002.

SUBSTANTIAL SHAREHOLDERS

Since trading in the securities of the Company has been suspended since 2:20 p.m. on 28 December 2001 and has been resumed on 15 December 2003, no transfer of shares have been effected and registered for the six months ended 30 September 2003. To the best of the knowledge of the Directors, having made all reasonable enquiries, the following parties with interest representing 10% or more of the Company's issued share capital were recorded in the register of substantial shareholders maintained pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance as at 28 December 2001:

Name of shareholder	Notes	Number of shares of the Company held			Percentage of Issued share capital
		Direct interest	Deemed interest	Total interest	
I-China	1	—	426,191,518	426,191,518	27.54%
Seapower International (B.V.I.) Limited	1	—	426,191,518	426,191,518	27.54%
Seapower Consortium Company Limited	1	—	426,191,518	426,191,518	27.54%
Felcasa International Limited	2	53,000,000	373,191,518	426,191,518	27.54%
Fordit Limited	3	373,191,518	—	373,191,518	24.12%

Notes:

1. These represented the deemed interest in 426,191,518 shares in the Company held by Felcasa International Limited and Fordit Limited which are wholly-owned subsidiaries of these companies.
2. This included the deemed interest in 373,191,518 shares in the Company held by Fordit Limited which is a wholly-owned subsidiary of Felcasa International Limited.
3. This included 159,315,000 shares in the Company held by Peregrine Brokerage Limited (In Members' Voluntary Liquidation) as chargee.
4. According to the records available to the former Provisional Liquidators, approximately 199,680,000 shares have been charged to Kingston Securities Limited, approximately 3,000,000 shares charged to KGI Finance Ltd, approximately 54,196,518 shares charged to KG Investments Holdings Ltd, and approximately 159,315,000 shares charged to Peregrine Brokerage Limited (In Members' Voluntary Liquidation).

In addition, as at 30 September 2003, the Company was notified by the following parties with interests representing 5% or more of the issued share capital of the Company pursuant to Section 336 of the SFO:

Name of shareholder	Notes	Number of shares of the Company held			Percentage of Issued share capital
		Direct interest	Deemed interest	Total interest	
KGI Securities Co., Ltd	1	—	187,346,664	187,346,664	12.11%
Richpoint Company Ltd	1	—	187,346,664	187,346,664	12.11%
KG Investments Holdings Ltd	2&4	—	187,346,664	187,346,664	12.11%
KGI International Ltd	2	—	187,346,664	187,346,664	12.11%
KGI Finance Ltd	3	120,845,000	—	—	7.81%

Notes:

1. These represented the deemed interest in 187,346,664 shares in the Company through KGI Finance Ltd and Jubilant Dynasty Ltd. KGI Finance Ltd and Jubilant Dynasty Ltd are wholly owned by KG Investments Holdings Ltd, which in turn is owned as to 79.20% by Richpoint Company Ltd, a wholly subsidiary of KGI Securities Co. Ltd.
2. These represented the deemed interest in 187,346,664 shares in the Company which are held by the wholly-owned subsidiaries of these companies, namely KGI Finance Ltd and Jubilant Dynasty Ltd.
3. This included 3,000,000 shares pledged by Felcasa International Limited.

4. According to the records available to the former Provisional Liquidators, approximately 54,196,518 shares in the Company has been charged to KG Investments Holdings Ltd by Felcasa International Limited and Fordit Limited.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the period.

EMPLOYEES

The Group had approximately 25 employees in Hong Kong, PRC and Australia as at 30 September 2003. The Group ensures that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

SHARE OPTION SCHEME

The share option scheme ("Option Scheme") became effective on 30 September 1999 and, unless otherwise cancelled or amended, was to remain in force for 5 years from that date.

The outstanding options previously granted to the staff were not exercised and thus lapsed in the year ended 31 March 2003 in accordance with the terms of the Option Scheme.

Subsequent to the recently amended chapter 17 of the Listing Rules with effect from 1 September 2001, no further share options were granted under the Option Scheme to any eligible employees of the Company or any of its subsidiaries (including Executive Directors and other officers of the Company or its subsidiaries) to subscribe for shares in the Company in accordance with the terms of the Option Scheme.

Save as disclosed above, at no time during the period was the Company or any of its associated corporations is a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate, and none of the Directors, chief executive or their spouses or children under the age of eighteen had any right to subscribe for the securities of the Company or any of its associated corporations, or had exercised any such right during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting policies and practices adopted by the Group and discussed the operation and the financial position of the Group including a review of the unaudited interim financial report for the six months ended 30 September 2003.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

After the completion of the Restructuring Agreement on 5 December 2003, none of directors of the Company is aware of any information which would indicate that the Group was not in compliance with the Code of Best Practice as set out in the Appendix 14 to the Listing Rules of the Stock Exchange at any time during the six months ended 30 September 2003.

For and on behalf of
Seapower Resources International Limited
Chan Chun Hing, Kenneth
Director

Hong Kong, 23 December 2003