THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares, you should at once hand this circular and the enclosed form of proxy to the purchaser(s) or the transferee(s), or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or the transfer was effected for transmission to the purchaser(s) or the transferee(s).

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities.

SEAPOWER RESOURCES INTERNATIONAL LIMITED
(凱暉國際實業有限公司*)

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 269)

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 51% INTEREST IN A FORESTRY COMPANY; GRANT OF SPECIAL MANDATE AND APPROVAL OF DIRECTOR'S SERVICE AGREEMENT

Financial adviser to Seapower Resources International Limited

Quam Financial Services Group
Quam Capital Limited

A notice convening the SGM to be held at Falcon Room II, Basement Floor, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong, on 18 September 2006 (or any adjournment thereof) at 11:00 a.m. is set out on pages N1 to N3 of this circular. The form of proxy for use in the SGM is enclosed with this circular. Whether or not you propose to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof, should you so desire.

1 September 2006

* *For identification purpose only*

CONTENTS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

"Acquisition"	acquisition of 51% equity interest in the Target by the Purchaser pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional acquisition agreement dated 10 April 2006, entered into between the Company, the Purchaser, the Target, the Vendor and the Guarantor in respect of the Acquisition
"Board"	the board of Directors
"Business Day"	a day (other than Saturday and Sunday) on which commercial banks in Hong Kong are open for business
"Cash Consideration"	a sum of HK$39 million to be paid by the Purchaser to the Vendor in five installments in accordance with the Acquisition Agreement
"Company"	Seapower Resources International Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the main board of the Stock Exchange
"Completion"	completion of the Acquisition Agreement
"Completion Date"	any Business Day to be determined by the Purchaser after the date on which all the conditions of the Acquisition Agreement are fulfilled or waived
"Consideration Share(s)"	new ordinary shares of HK$0.01 each in the share capital of the Company to be allotted and issued to the Vendor, at the Issue Price with an aggregate value of HK$115 million as part of the consideration for the Acquisition, in accordance with the Acquisition Agreement
"Director(s)"	director(s) of the Company
"Enlarged Group"	the Company and its subsidiaries post Completion, including the Target and the Joint Venture

"Floor Price"	HK$0.128 per Consideration Share, being the floor or minimum price at which the Consideration Shares shall be issued
"Forest"	the forests granted or approved to be granted to the Target by the Guyana Forestry Commission of an aggregate area of approximately 164,800 hectares (407,000 acres) mainly located in the north bank of Amakura River, the south bank of Baramita Amerindian Reserve and Whana River, the east bank of Whannamaparu and Whana River and the west bank of border with Venezuela, State Forest of Guyana, South America, which the Target has obtained an exclusive timber concession right for a period of 25 years
"Garner"	Garner Forest Industries Inc., a company incorporated in Guyana, South America with limited liability
"Garner Forest"	the forest, including but not limited to those granted under the State Forest Exploratory Permit dated 18 June 2004 and the Timber Sales Agreement dated 11 June 2005 executed by Guyana Forestry Commission in favour of Garner, of an area of approximately 92,737 hectares mainly located in the left bank of Mazaruni River, the right bank of Puruni River, and the left bank of Putareng River of Guyana
"Garner Forest Option Agreement"	an option agreement dated 16 May 2006, entered into between the Company and Mr. Danny Chan, pursuant to which the Guarantor has granted the Company a call option to purchase 51% of the shareholding of Garner at a nominal consideration of HK$1 which is exercisable by the Company within five years from the Completion Date, at the purchase price of HK$60 million
"Group"	the Company and its subsidiaries
"Guarantor" or "Mr. Danny Chan"	Mr. Danny Chan, father of Mr. Peter Chan, is the chairman and director of the Target and the beneficial owner of 44.55% equity interest in the Target as at the Latest Practical Date
"HKAS(s)"	Hong Kong Accounting Standards issued by Hong Kong Institute of Certified Public Accountants

"HKGAAP"	Hong Kong generally accepted accounting principles
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Issue Price"	the issue price of the Consideration Share, to be determined based on the average closing price for the past 15 trading days up to and including the seventh Business Day immediately before the respective dates of issue of the Consideration Shares. In the case where the Issue Price is lower than the Floor Price, the Consideration Shares shall be issued at the Floor Price
"Jaling Sale Shares"	255,000 shares of the Target to be acquired by the Purchaser from the Vendor at Completion, which shall constitute 51% of the issued and outstanding share capital of the Target as at the Completion Date
"Joint Venture"	W & J Forest Resources Development Limited, a joint venture company incorporated in Hong Kong on 1 December 2005 for the purpose of, amongst other things, the operation and management of the Forest, owned as to 50% by the Target and Mr. Chu Wenze respectively
"Joint Venture Agreement"	a joint venture agreement dated 22 December 2004, entered into among the Target and four independent natural persons from the PRC, as amended from time to time, to set up and operate the Joint Venture
"Latest Practicable Date"	28 August 2006, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Lock-up Period"	a period of 24 months commencing from the respective dates of issue and allotment of the Consideration Shares
"Long-Stop Date"	21 September 2006, or such other day as the parties to the Acquisition Agreement shall agree in writing at which all conditions as set out in the Acquisition Agreement shall be fulfilled

"Option"	a call option granted by Mr. Danny Chan to the Company at a consideration of HK$1 to purchase from Mr. Danny Chan 2,550 ordinary shares of Garner, representing 51% of the issued share capital of Garner at a total price of HK$60 million, equivalent to approximately HK$23,529.41 per Option Share
"Option Share(s)"	2,550 ordinary shares of Garner, representing 51% of the issued share capital of Garner
"PRC"	The People's Republic of China, which for the purpose of this circular only, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"PRC Joint Venture Partners"	four natural persons in the PRC, including Mr. Chu Wenze, whom have founded the Joint Venture with the Target
"Purchaser" or "Wild Forest"	Wild Forest Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
"Second Supplemental Agreement"	the supplemental acquisition agreement dated 31 August 2006, entered into between the Company, the Purchaser, the Vendor, the Guarantor and the Target in respect of amendments to the Acquisition Agreement
"Service Agreement"	the conditional service contract entered into between Mr. Danny Chan, the Target and the Company on 10 April 2006
"SGM"	the special general meeting of the Company to be held to consider the ordinary resolution(s) to be proposed to approve, amongst other things, the Acquisition Agreement; the Special Mandate and the Service Agreement
"Share(s)"	ordinary share(s) of HK$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Special Mandate"	the special mandate to allot and issue the Consideration Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Supplemental Agreement"	the supplemental acquisition agreement dated 30 June 2006, entered into between the Company, the Purchaser, the Vendor, the Guarantor and the Target in respect of amendments to the Acquisition Agreement
"Survey and Valuation Report"	the survey and valuation report dated 1 July 2004 prepared by an independent valuer, B J Management & Associates, stating that the Forest has a gross fair value of approximately US$377 million
"Target"	Jaling Forest Industries Inc., a private company incorporated in Guyana, South America with limited liability
"Target Group"	Target and its subsidiary, namely the Joint Venture
"Vendor"	Mr. Peter Chan, son of Mr. Danny Chan, is a director and beneficial owner of 51% equity interest of the Target as at the Latest Practical Date
"Timber Sales Agreement"	the Timber Sales Agreement (02/2005) dated 25 January 2005 entered into between the Target and Guyana Forestry Commission
"Weihai"	威海東維進出口有限公司(Weihai Dongwei Imp. & Exp. Co., Ltd*) a subsidiary of Shandong Baishengyuan Group, a State First Grade Enterprise with over 40 years of experience in timber related business operation and has over 2,000 employees
"Wuchang"	五常國有林場公司(Wuchang State-owned Forestry Company*) a collectively owned state forestry company established in May 2005 with registered capital of RMB2.57 million
"G$"	Guyanese dollar(s), the lawful currency of Guyana, South America
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"US$"	United Stated dollar(s), the lawful currency of the United States of America
"%"	per cent.

Unless otherwise specified, for the purpose of illustration in this circular, amounts denominated in G$ and US$ are translated into Hong Kong dollars at HK$1 = G$24.5 and US$1 = HK$7.78.

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SEAPOWER RESOURCES INTERNATIONAL LIMITED
(凱暉國際實業有限公司*)

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 269)

Executive Directors:
Mr. Fung Tsun Pong
Mr. Tsang Kam Ching, David

Independent non-executive Directors:
Mr. Yip Tak On
Mr. Liu Ka Lim
Mr. Jing Baoli

Registered office:
The Office of Caledonian
Bank & Trust Limited
Caledonian House
George Town
Grand Cayman
Cayman Islands

Principal place of business in Hong Kong:
Room 3308, Office Tower
Convention Plaza
Wanchai
Hong Kong

1 September 2006

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION IN RELATION TO THE PROPOSED ACQUISITION OF 51% INTEREST IN A FORESTRY COMPANY; GRANT OF SPECIAL MANDATE AND APPROVAL OF DIRECTOR'S SERVICE AGREEMENT

INTRODUCTION

On 10 April 2006, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Acquisition Agreement with, among other parties, the Vendor to acquire 51% equity interest of the Target. The Target is a private company incorporated in Guyana, South America, and is principally engaged in logging and forest exploitation, operation and management. The primary asset of the Target is its holding of an exclusive timber concession right granted by the

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Commissioner of Forests, Guyana Forestry Commission for a period of 25 years. The total consideration for the Acquisition payable by the Purchaser is HK$154 million, of which HK$39 million will be settled by way of Cash Consideration and the balance of HK$115 million will be settled by the issue of Consideration Shares. The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules and is conditional upon, amongst other things, the approval by the Shareholders at the SGM.

On 10 April 2006, the Company and the Target have also entered into the Service Agreement with Mr. Danny Chan, engaging Mr. Danny Chan as the managing director of the Target with effect from the Completion Date. Upon Completion, the Target, which holds a 50% interest in the Joint Venture, will become a non-wholly owned subsidiary of the Company. The appointment of Mr. Danny Chan, which has a duration that may exceed three years, will require the approval of the Shareholders at a general meeting pursuant to Rule 13.68(a) of the Listing Rules. No Shareholder is required to abstain from voting in respect of any resolutions that will be proposed to approve the Acquisition, the Special Mandate and the Service Agreement at the SGM.

The purpose of this circular is to provide you with further information regarding, amongst other things, the Acquisition, the Special Mandate and the Service Agreement. This circular also contains a notice of SGM which shall be convened for the purpose of considering and, if thought fit, approving the resolutions in relation to the Acquisition, the Special Mandate and the Service Agreement.

THE ACQUISITION AGREEMENT

Date	:	10 April 2006
Company	:	Seapower Resources International Limited
Purchaser	:	Wild Forest Limited, a wholly-owned subsidiary of the Company, incorporated in Hong Kong with limited liability
Vendor	:	Mr. Peter Chan, a director of the Target and the beneficial owner of 51% equity interest of the Target as at the Latest Practicable Date
Guarantor	:	Mr. Danny Chan, the chairman and a director of the Target and the beneficial owner of 44.55% equity interest of the Target as at the Latest Practicable Date
Target	:	Jaling Forest Industries Inc., a private company incorporated in Guyana, South America with limited liability

Shares to be acquired

51% equity interest in the Target.

Consideration

The total consideration for the Acquisition is HK$154 million, inclusive of the concession fee of HK$9 million. Further to arm's length negotiation with the Vendor and the Guarantor, the Directors have taken into consideration of the followings when considering the terms of the transaction: (i) the findings provided by the site inspection team which was led by a project manager of the Company, Mr. Simon Chan, sent by the Company upon inspection of the Forest including all the infrastructures built, such as roads, piers and dormitories and review of the documentations provided by the Target, including the business plan prepared by forestry engineer, B&C Management Associates in January 2002. The Vendor has indicated, and the Directors noted that infrastructure costs were procured by the PRC Joint Venture Partners for the exploration of the Forest pursuant to the terms of the Joint Venture Agreement (for details of the Joint Venture, please refer to the section headed "The Joint Venture"). As such, the costs of building the infrastructures, which are considered as ancillary features of the Forest by the Directors, were not reflected in the Target's account. Apart from the on-site inspection, the Company has not performed any due diligence review on the infrastructure and exploration costs of the Forest; (ii) the worth of the timber reflected in the Survey and Valuation Report, stating that the Forest has a gross fair value of approximately US$377 million (or about HK$2,933 million) and the independent valuation report attached to this circular stating that the Forest has a value of US$310 million (or about HK$2,412 million). However, the valuation report does not reflect the value of the concession right. The purpose of the valuation report is to provide further information to the Shareholders regarding the Forest. The Directors are of the view that the value represented in both valuations is a possibility. There may be limitations to achieving the value of either report. It is noted that the Joint Venture is granted the right by the Target to harvest 200,000 cubic meters of timber per year. It is noted that about 2,800,000 cubic meter of timber can be harvested from the Forest with reference to the Guyana Forests Act and Regulations. Based on the planned annual cut of 200,000 cubic meters, the life span of the existing timber in the Forest is about 15 years and any harvested block shall be allowed for cutting after the closure of 25 years. It is also noted that the costs relating to the operation includes the royalty payment and service fee to the Target for provision of administrative services, and fixed logging fee to Wuchang for the provision of harvesting service (for details, please refer to the section headed "Business Operations"). As such, the Directors are of the view that the actual return generated from the forest operations may be at a substantial discount to the value represented in both valuations. Nonetheless, the Directors are of the view that the proposed forest operation has the potential to enhance the profitability of the Group; and (iii) the future prospects and operations of the Target and the Joint Venture as detailed in the following pages of this letter from the Board. On the basis of the above, in particular the immediate commencement of exploitation of the Forest, the Directors are of the view that the transaction has been entered into on normal commercial terms and consider the total consideration of HK$154 million is fair and reasonable and in the interest of the Company and the Shareholders on the whole.

Payment arrangement

The consideration for the Acquisition shall be satisfied in full by the payment of the Cash Consideration by the Purchaser to the Vendor and by allotment of the Consideration Shares by the Company to the Vendor. On 30 June 2006 and 31 August 2006, the parties to the Acquisition Agreement entered into the Supplemental Agreement and the Second Supplemental Agreement respectively, pursuant to which the Long-Stop Date was extended from 7 July 2006 to 21 September 2006 and the payment arrangement was adjusted accordingly. The said amendments were made mainly due to delay in completion of due diligence review on the Target. The consideration shall be settled in the following manner:

Date	**Payment of Cash Consideration** *(HK$)*	**Settlement by issue of Consideration Shares at the Issue Price which are equivalent to:** *(HK$)*
Upon execution of the Acquisition Agreement	5,000,000	Nil
On or before 21 September 2006	5,000,000	30,000,000
On or before 29 December 2006	5,000,000	25,000,000
On or before 29 June 2007	10,000,000	30,000,000
On or before 31 December 2007	14,000,000	30,000,000

Upon the execution of the Acquisition Agreement, the Purchaser has paid the Vendor a deposit of HK$5 million. In the event the Acquisition Agreement fails to complete, the said deposit shall be returned to the Purchaser without interest within 14 Business Days after the Long-Stop Date. The Vendor and the Guarantor have also entered into a share mortgage agreement by charging 293,500 shares of the Target (of which 288,500 and 5,000 shares are beneficially held by Mr. Peter Chan and Mr. Danny Chan respectively), representing not less than 58.7% of the total issued share capital of the Target, in favour of the Purchaser as security for repayment of the said deposit. The shares mortgaged will be discharged either upon Completion or upon repayment of the abovementioned deposit and any sums already paid by the Purchaser as the case may be.

Furthermore, a post-completion share mortgage of 135,000 shares of the Target (representing approximately 27% of the issued share capital of the Target) will be executed by the Guarantor in favour of the Purchaser as a condition precedent to Completion. The purpose of this arrangement is to ensure the contractual obligations of the Vendor and the Guarantor following Completion, including all undertakings, warranties and representations are fulfilled, which is in the interest of the Company and the Shareholders as a whole. This arrangement shall be discharged when the Purchaser is fully satisfied that the Vendor and the Guarantor have performed and discharged all their contractual obligations.

The Company intends to finance the Cash Consideration of HK$39 million by way of internal resources and debt or equity financing. The Directors expect the aggregate cash payment of HK$15 million to be settled in 2006 will be financed by internal resources only. The Consideration Shares of an aggregate value of HK$115 million will be issued at the Issue Price but not lower than the Floor Price of HK$0.128 per Share. The Issue Price shall be the average closing price for the past 15 trading days leading to and including the seventh Business Day immediately before the respective date of issue of the Consideration Shares. Based on the closing price of HK$0.066 per Share as at the Latest Practicable Date, the Company shall issue 898,437,500 Consideration Shares. In the event the Issue Price is lower than the Floor Price, the Consideration Shares shall be issued at the Floor Price and the Company shall issue a total of 898,437,500 Consideration Shares equivalent to around HK$115 million, which represent about 13.5% and 11.9% of the existing and the enlarged issued share capital of the Company respectively. As a result, the Vendor will become a substantial shareholder of the Company but it is not expected to lead to a change in control of the Company.

At the forthcoming SGM, an ordinary resolution will be proposed to grant to the Directors a special mandate to allot, issue or otherwise deal with up to 898,437,500 Consideration Shares at the Issue Price for the purpose of the Acquisition.

Based on the closing price of HK$0.139 per Share as quoted on the Stock Exchange on 10 April 2006 (being the last trading day immediately before the execution of the Acquisition Agreement), the market value of 898,437,500 Consideration Shares is approximately HK$124.9 million.

Pursuant to the Acquisition Agreement, 80% of the Consideration Shares whenever allotted and issued to the Vendor shall not be disposed of, charged, mortgaged or encumbranced and shall be held by an escrow agent during the Lock-up Period. The escrow agent in relation to all Consideration Shares shall be jointly appointed by the Purchaser and the Vendor before allotment of any of the Consideration Shares.

Shareholding Structure of the Company Before and After the Completion

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the issue of all the Consideration Shares on 31 December 2007 assuming that the Consideration Shares are to be issued at the Floor Price:

	Shareholding as at Latest Practicable Date		Immediately after the issue of all the Consideration Shares	
	No. of Shares	**%**	**No. of Shares**	**%**
Ocean Gain Limited *(Note 1)*	1,050,000,000	15.76	1,050,000,000	13.89
Richest Billion Limited *(Note 2)*	1,045,000,000	15.69	1,045,000,000	13.82
Allkeen Investments Limited *(Note 3)*	1,000,000,000	15.01	1,000,000,000	13.23
Huang Wailing	895,064,514	13.43	895,064,514	11.84
The Vendor *(Note 4)*	—	—	898,437,500	11.88
Public Shareholders	2,672,385,403	40.11	2,672,385,403	35.34
Total:	6,662,449,917	100	7,560,887,417	100

Notes:

1. Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive Director.

2. Richest Billion Limited is wholly-owned by Ms. Li Shi Miao.

3. Allkeen Investments Limited is wholly-owned by Ms. Wong Yat Ping.

4. Assuming the Consideration Shares to be issued at Floor Price.

Application will be made to the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares which will rank pari passu with the existing Shares. All Consideration Shares will only be issued after Shareholders' approval in relation to the Acquisition and the Stock Exchange's approval in relation to the said application having been obtained.

Consideration adjustment mechanism

The Cash Consideration is subject to a dollar to dollar downward adjustment if the net indebtedness (being the total indebtedness less the cash and cash equivalents) of the Target and the Joint Venture as of the close of business on the Completion Date, calculated in conformity with HKGAAP, is greater than zero. The Vendor and the Guarantor shall be jointly and severally liable to pay the Purchaser an amount equal to the net indebtedness and such amount shall be deductible from the Cash Consideration. However, in the event that the net indebtedness of the Target and the Joint Venture is greater than the Cash Consideration, the Vendor and the Guarantor shall be liable to pay the Purchaser such amount, after deducting the Cash Consideration, by way of cash. Based on the audited financial statements of the Target Group as at 31 March 2006, it has a net indebtedness, being the amount due to Mr. Danny Chan less the balance of cash at bank, of approximately HK$1.483 million. Mr. Danny Chan, the director of the Target, has agreed with the Company that he will waive the net indebtedness of the Target Group as at Completion Date upon Completion. In the event that Mr. Danny Chan fails to waive the net indebtedness, the net amount shall be deducted from the Cash Consideration as settlement. As a result, upon Completion, the net indebtedness of the Target Group will be zero.

Conditions precedent

The obligations of the Purchaser, the Company, the Vendor and the Guarantor to consummate the transaction contemplated under the Acquisition Agreement are conditional upon the fulfillment of the following conditions:

1. the Purchaser being satisfied with the results of its due diligence (in relation to, among others, the assets, liabilities, operations, business, financial and legal aspects) on the Target and the Joint Venture;

2. the Vendor shall assist the Purchaser to obtain a legal opinion to be issued by a Guyana lawyer in relation to various aspects of the Target, including but not limited to, the Target's legal status under the laws of Guyana and the Vendor's legal and beneficial ownership of the Jaling Sale Shares;

3. the Vendor shall assist the Purchaser to obtain a legal opinion to be issued by a Guyana lawyer certifying that the Target has all the necessary lawful and valid governmental approvals, concessions, and contractual rights and entitlement for the exploration, exploitation and occupation of the Forest and undertaking such business operations and activities of and in connection with the Forest and all other transactions as contemplated by the Acquisition Agreement;

4. the Vendor shall assist the Purchaser to obtain a survey and valuation report on the value of the Forest to be issued by an international surveyor appointed by the Purchaser and the assessment results to be provided by the said independent international surveyor shall be satisfactory to the Purchaser (as amended by the Supplemental Agreement);

5. the Vendor shall obtain a legal opinion to be issued by a PRC lawyer certifying, that (a) the Joint Venture Agreement entered into between the Target and the PRC Joint Venture Partners; and (b) the forest logging agreement dated 16 June 2004 entered into between the Target and Wuchang, a contractor of the Target, pursuant to which the Joint Venture agrees to pay royalties to the Target and to pay the per cubic meter logging fee and processing fee to Wuchang and permits Wuchang to log a maximum of 200,000 cubic meters of timber from the Forest per year for five years, are legally binding, valid and enforceable obligations of each of the signing parties to the satisfaction of the Purchaser;

6. requisite approval and consent having been granted by the regulatory and governmental authorities in Hong Kong and Guyana for the sale and purchase of the Jaling Sale Shares (if applicable);

7. any requirement imposed on the Company or its subsidiaries by the Stock Exchange or the Listing Rules in connection with the matters contemplated under the Acquisition Agreement having been complied with (including, without limitation, any disclosure requirement or any requirement to obtain approval of the Shareholders);

8. any other necessary approval, including (without limitation) from the Shareholders in relation to the Acquisition Agreement, the issue of the Consideration Shares and the Service Agreement;

9. the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;

10. execution of a post-completion share mortgage, which is structured to secure the performance of the contractual obligations of each of the Vendor and the Guarantor under the Acquisition Agreement post Completion, in favour of the Purchaser by the Guarantor as beneficial owner charging 135,000 shares (representing approximately 27% of the issued share capital of the Target) of the Target to the Purchaser and shall deposit with the Purchaser as first fixed charge all the original share certificates covering the said shares and all documents approving the transfer of such shares to the Purchaser;

11. due execution of the Service Agreement;

12. due execution of the shareholders' agreement between all the shareholders of the Target except Benjamin V. Pacis and Charles Chong Fui Kong in the form and substance reasonably satisfactory to the Purchaser;

13. the warranties set out in the Acquisition Agreement, including warranties, representations and undertakings given by the Vendor and the Guarantor in relation to various aspects of the Jaling Sale Shares and the Target, remaining true and accurate in all respect as at 10 April 2006 and the Completion Date;

14. completion of transfer of the legal and beneficial ownership of 171,500 shares of the Target registered under the name of Lau Hung Faat, a third party independent of the Company and its connected persons (as defined in the Listing Rules) and their associates, to Wealth Glory Development Limited (being wholly beneficially held by Mr. Danny Chan) and completion of transfer of the legal and beneficial ownerships of 96,500 shares of the Target out of the said 171,500 shares of the Target to the Guarantor;

15. the Guarantor having entered into the Garner Forest Option Agreement, an option agreement in a form and substance satisfactory to the Company and the Guarantor granting to the Company a call option to purchase 51% of the shareholding of Garner for the consideration of HK$1, exercisable by the Company within five years from the Completion Date at the purchase price of HK$60 million;

16. a corporate structure and employment of all employees of the Target to be agreed by the Purchaser and the Vendor; and

17. the Purchaser having received, in form and substance satisfactory to it, the management accounts of both the Target and the Joint Venture as at 31 March 2006, the audited financial statements of the Target made up as at 31 December 2005, and a report prepared by the reporting accountants of the Company in conformity with HKGAAP in relation to the Joint Venture's financial position for the period from its incorporation to 31 March 2006.

The conditions precedent set out above are for the sole benefit of the Purchaser, which may in its absolute discretion waive any or all of the above conditions, save for conditions precedent 7 to 9, as it may think fit. As at the date of this circular, the Purchaser does not intend to waive any of the conditions precedent as set out above. However, if any of the conditions precedent is waived while Completion takes place, a further announcement will be issued by the Company accordingly. In the event that the conditions precedent are not fulfilled or waived by the Purchaser by the Long-Stop Date or such later date as the Purchaser and the Vendor may from time to time agree, at the option of either the Purchaser or the Vendor exercisable by notice in writing to the other parties, the Acquisition Agreement shall be terminated and became null and void and of no further effect. As at the Latest Practicable Date, the 171,500 shares of the Target, as set out in conditions precedent 14 above, have already been transferred to Wealth Glory Development Limited.

Undertaking

The Vendor and the Guarantor jointly and severally undertake to the Purchaser and the Company:

1. after signing of the Acquisition Agreement, not to acquire any further Shares or securities in the Company which would trigger off (a) a mandatory conditional general offer to be made by or on behalf of the Vendor to the Shareholders; and/or (b) reverse takeover as a result of the allotment of the Consideration Shares to the Vendor;

2. not to enter into any agreement and arrangements to dispose of, transfer or create any pledge, lien, mortgage, charge, encumbrance, liability, rights of pre-emption or other equity or third party rights of any nature whatsoever on, over or affecting any of the Consideration Shares to be locked up during the Lock-up Period;

3. after signing of the Acquisition Agreement, not to enter into any agreement and arrangements to dispose of, transfer or create any pledge, lien, mortgage, charge, encumbrance, liability, rights of pre-emption or other equity or third party rights of any nature whatsoever on, over or affecting any shares of the Target being beneficially and legally owned by them, except being contemplated under the Acquisition Agreement, with prior written consent of the Purchaser or upon the Purchaser ceases to be a shareholder of the Target;

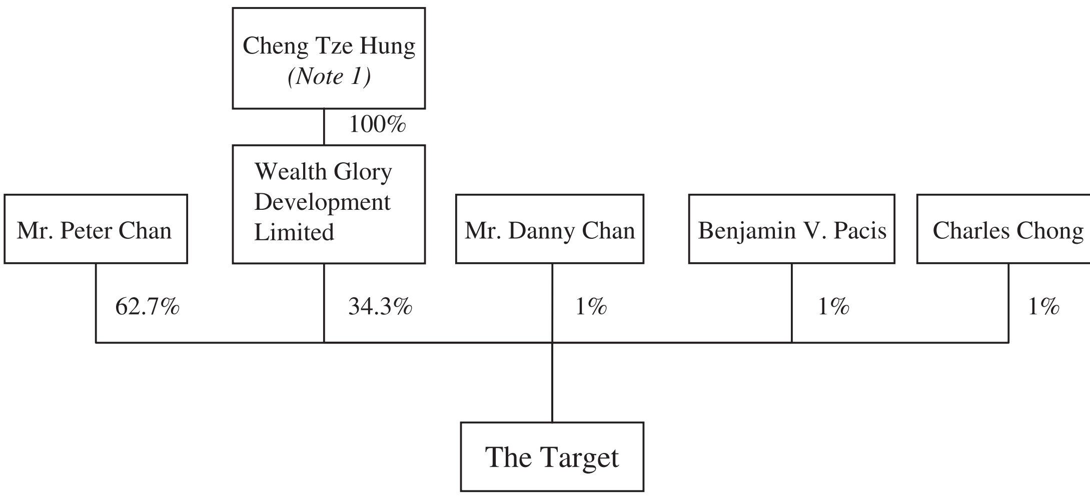
4. deliver within 14 Business Days after the Completion Date, (a) the certified true copy of the register of members of the Target evidencing the Purchaser as the registered shareholder of the Jaling Sale Shares; (b) the duly stamped instrument of transfer and other documents in respect of the Jaling Sale Shares in favour of the Purchaser, and other documents which will perfect the transfer of the legal and beneficial ownership of the Jaling Sale Shares;

5. the Guarantor shall duly comply with the terms and conditions of the Service Agreement; and

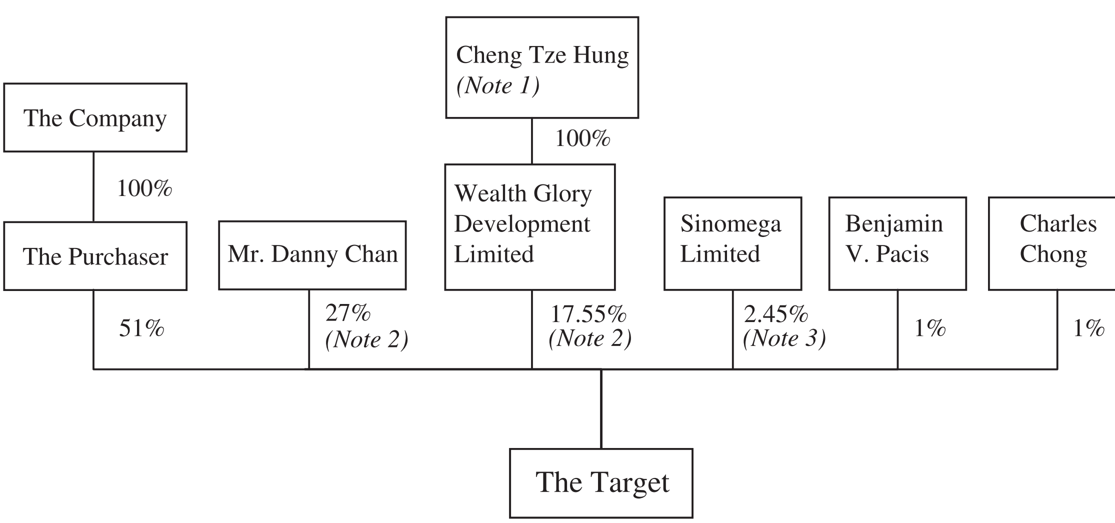
6. the Guarantor shall not and shall procure Garner not to conduct, carry out and undertake any business and other operations and activities of Garner, including but not limited to the exploratory activities and any logging and forest exploitation, operation and management within a period of five years from the Completion Date.

SHAREHOLDING STRUCTURE OF THE TARGET

Shareholding structure immediately before the Acquisition



Shareholding structure immediately following the Acquisition



Notes:

1 Ms. Cheng Tze Hung is an employee and the nominee of Mr. Danny Chan and is holding all the shares of Wealth Glory Development Limited in trust for Mr. Danny Chan. Accordingly, Mr. Danny Chan is effectively the ultimate beneficial owner of all shares of the Target held by Wealth Glory Development Limited.

2 The transfers of 83,750 and 46,250 shares (representing approximately 16.75% and 9.25% of the issued share capital of the Target) in the Target from Wealth Glory Development Limited and the Vendor respectively to Mr. Danny Chan are made to facilitate that Mr. Danny Chan shall have 27% shareholding in the Target for the entering into the post-completion share mortgage in favour of the Purchaser upon Completion.

3 Sinomega Limited is a limited company incorporated in the British Virgin Islands on 19 April 2006 being wholly owned by Huang Huiqiong (黃惠琼), a third party independent of the Group and its connected persons (as defined under the Listing Rules) and their respective associates. Furthermore, the Vendor and Mr. Danny Chan confirmed that they have no relationship with Huang Huiqiong (黃惠琼).

INFORMATION ON THE TARGET

Background

The Target was incorporated in Guyana, South America, on 24 January 2002, as a private company with limited liability, having an authorised share capital of G$500,000 divided into 500,000 shares of G$1.00 each, all of which have been issued and are fully paid. It is principally engaged in logging and forest exploitation, operation and management. As at the Latest Practicable Date, the Target is owned as to 51%, 27%, 17.55%, 2.45%, 1% and 1% by the Vendor, Mr. Danny Chan, Wealth Glory Development Limited, Sinomega Limited, Mr. Benjamin V. Pacis and Mr. Charles Chong respectively. The Vendor, Mr. Danny Chan and Mr. Charles Chong are also directors of the Target. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor and all other shareholders of the Target and their ultimate beneficial owners are third parties independent of the Group and its connected persons (as defined under the Listing Rules) and their respective associates, and none of them holds any Shares.

Upon Completion, all directors of the Target, except Mr. Danny Chan, will resign and the Purchaser will designate two directors to the board of directors of the Target. It is the intention of the Purchaser to designate Mr. Fung Tsun Pong and Mr. Tsang Kam Ching, David, both are Directors, as the two designated directors to the board of directors of the Target. Mr. Fung Tsun Pong has over 20 years management experience in property development, logistics and investment company and has held senior management positions in companies incorporated for various investment purposes. Mr. Tsang Kam Ching, David has extensive financial management experience over the past 20 years which covers merchant banking, stock broking, and corporate finance business. He is currently a responsible officer registered under the Securities and Futures Ordinance for type 1 (securities dealing) and type 6 (corporate finance) activities. Mr. Tsang is also a fellow member of the Chartered Association of Certified Accountants in the United Kingdom and a member of the Hong Kong Institute of Certified Practising Accountants.

Principal licenses and permits

The Guyana Forestry Commission was the government agency responsible for the administration and management of the 13.6 million hectares of land classified a State Forests (including the Forest) in Guyana in accordance with the Forests Act, the Forests Regulations and the Code of Practice for Timber Harvesting.

Three types of concessions may be awarded by Guyana Forestry Commission based on area size and duration:

Timber Sales Agreement — granted up to twenty-five years for areas in excess of 24,000 hectares;

Wood-cutting Lease	—	granted for up to ten years for 8,000 — 24,000 hectares; and
State Forest Permission	—	granted for a two-year period on no more than 8,000 hectares.

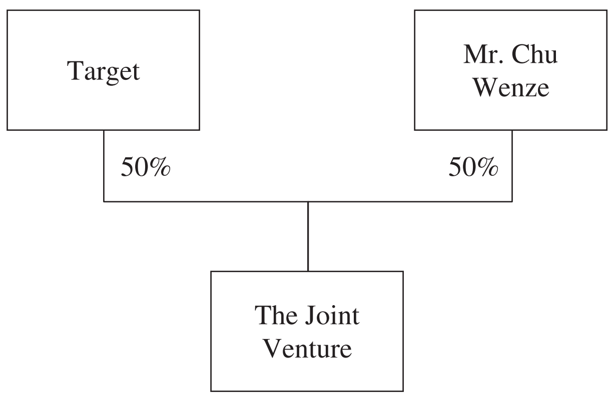
On 22 August 2003, the Target was granted with a State Forest Exploratory Permit (01/2003) by Guyana Forestry Commission which conveyed the Target with the rights to explore, research, investigate and evaluate a forest area of approximately 167,000 hectares (412,000 acres). Subsequently the Target was granted with exclusive timber concession rights for a period of 25 years to occupy and harvesting timbers on an aggregate forest area of approximately 136,900 hectares (338,000 acres) in the State Forest of Guyana, South America by the Guyana Forestry Commission under the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) which include a block located on the left bank of Whana River, the right bank of Whannamaparu River and the left bank of Barima River and another block located on the left bank of Sebai River, the right bank of Waiumu River and the right bank of Indina River.

Further to an approval letter dated 19 January 2006, two forest areas being part of Baramita and Sebai reservations of a total of approximately 27,900 hectares (69,000 acres) were approved to be granted by Guyana Forestry Commission to the Target pending formal amendment to the Timber Sales Agreement which shall convey exclusive timber concession rights of a period of 25 years to the Target to occupy and harvest timbers on these two additional areas. The Target expects that a formal amendment to the Timber Sales Agreement in respect of the 27,900 hectares (69,000 acres) will be executed later this year, upon which the Target will be entitled to occupy an aggregate forest area of approximately 164,800 hectares (407,000 acres) in Guyana which shall bring the total concession acreage granted to the Target as close as possible to the areas of 167,000 hectares (412,000 acres) explored by the Target under the State Forest Exploratory Permit (01/2003).

The exclusive timber concession rights permit the Target to cut and remove timber from the Forest on the basis that the Target shall pay such annual acreage fee charged on all forested area as prescribed by the Forests Act and Forests Regulations in Guyana, which is currently a minimum of US$28,596.74 (HK$222,482) or US$0.12 (equivalent to approximately HK$0.93) per acre whichever is higher. Based on the land area of approximately 164,800 hectares (407,000 acres), the Target is required to pay an annual acreage fee, representing the annual cost of the concession rights, of approximately US$49,000 (equivalent to approximately HK$381,000).

Apart from approximately 10% of the Forest which are either non usable or in-operable due to rivers, swaps, high hills and rocks, and 4.5% of the remaining productive area of the Forest which must be set aside as biodiversity reserves, all forest areas are operable. Based on the Forest with an area of approximately 164,800 hectares (407,000 acres), approximately 141,000 hectares (348,000 acres) are operable. According to the Guyana Forests Act and Regulations, 20 cubic meters timber can be harvested as per each hectare of the Forest, that is, a total of approximately 2,800,000 cubic meters of logs can be harvested from the Forest at any time provided logged block (unit of area for harvesting) shall be closed for 25 years until the next cutting cycle for the purpose of ensuring sustainability. Other than the said requirement, there is no other legislative and regulative restrictions governing the volume of timbers to be cut and removed from the Forest. Based on the planned annual cut of 200,000 cubic meters, the life span of the existing timber in the Forest is approximately 15 years and any harvested block shall be allowed for cutting after the closure of 25 years.

The Joint Venture



On 22 December 2004, the Target entered into the Joint Venture Agreement, with four natural persons from the PRC (the "PRC Joint Venture Partners"), to set up the Joint Venture in relation to the operation, management and distribution of timber logged from the Forest through its processing and distribution network in the PRC. Upon incorporation, the Joint Venture was owned as to 50% by the Target and 12.5% by each of the PRC Joint Venture Partners, one of whom was Mr. Chu Wenze (初汶澤). The Joint Venture has a registered capital of HK$10,000 of which HK$5,000 was contributed by the Target and HK$5,000 was contributed jointly by the PRC Joint Venture Partners in equal portions. The Target and the PRC Joint Venture Partners have no further capital commitment. It is noted that the equity interest held by the other three PRC Joint Venture Partners was sold and transferred to Mr. Chu Wenze on 19 April 2006, resulting in Mr. Chu Wenze owning 50% interest in the Target.

Mr. Chu Wenze has over 20 years of experience in forestry business and wood flooring industry in the PRC and was the founder of China Flooring Industry Association and the vice president of the same for 6 years. Prior to 1976, Mr. Chu Wenze was a senior PRC government official of a state forestry bureau. Upon PRC's adoption of open economy policy in 1976, Mr. Chu Wenze has incorporated and managed his trading companies for processing logs, producing and selling hardwood flooring, and contracting flooring projects for real estate for over 20 years. Currently, Mr. Chu Wenze is running a hardwood flooring business in Beijing focusing on the wholesales of hardwood floorings and furnishing floorings for real estate project in Beijing. Mr. Chu Wenze's role is to develop and expand the Joint Venture's sales network and customer base in the PRC and is responsible for liaising and co-ordinating with Weihai.

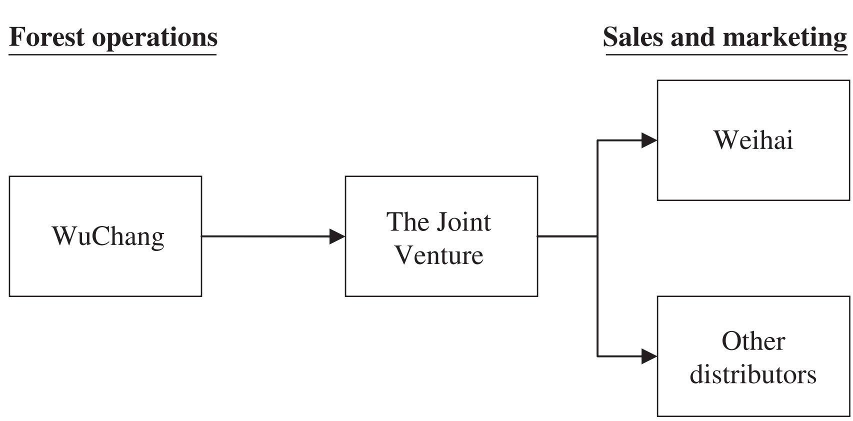
The Joint Venture has been accounted for as a subsidiary of the Target as the Target has control over the board of directors of the Joint Venture.

As at the Latest Practicable Date, Mr. Danny Chan and Mr. Chu Wenze are the only directors of the Joint Venture. Pursuant to the Acquisition Agreement, the Purchaser shall have the right to designate two directors to the board of directors of the Joint Venture so that the Purchaser shall have control of the board of directors of the Target. Accordingly, the Purchaser intends to appoint Mr. Tsang Kam Ching, David and Mr. Danny Chan as designated directors of the Joint Venture. Mr. Chu Wenze, who has over 20 years experience in the forestry business and wood flooring industry in the PRC, shall remain as director of the Joint Venture. Mr. Chu Wenze has also worked closely with Mr. Danny Chan for the past ten years in the forestry and timber industry. Mr. Danny Chan shall be responsible for the day-to-day operation of the Joint Venture.

As mentioned in the section headed “Consideration” above, the Vendor has indicated, and the Directors noted that infrastructure costs were procured by the PRC Joint Venture Partners for the exploration of the Forest. As such, the costs of building the infrastructures which are considered as ancillary features of the Forest by the Directors, were not reflected in the Target’s account.

It is noted that the Target had not commenced any logging business, timber harvesting activities and falling and processing of timber, and had not incurred any logging or harvesting costs since the date of its incorporation up to 31 March 2006 and therefore had not recorded any profit for the three financial years immediately proceeding the transaction. As at 31 March 2006, the Target Group had an audited net liabilities of HK$152,000 (equivalent to approximately G$3,724,000).

Business Operations



Pursuant to the Joint Venture Agreement, the Target granted the Joint Venture an exclusive right to harvest 200,000 cubic meters of timber per year for a period of 10 years and the Joint Venture shall pay the Target US$20 (equivalent to approximately HK$156) per cubic meter of timber logged as royalties. Based on the said exclusive rights, the Joint Venture shall pay the Target a maximum of US$4 million (equivalent to approximately HK$31 million) per year as royalties. Furthermore, the Joint Venture is liable to pay Wuchang, an independent contractor engaged by the Target to provide harvesting service to the Joint Venture, a fixed logging fee of US$44 (equivalent to approximately HK$342) per cubic meter of timber logged by Wuchang for its service to log, pack and process, in particular, allocation of harvesting block, log production, felling, bucking, skidding and hauling.

Wuchang is a collectively-owned state enterprise under the management and control of Wuchang Municipal Forestry Bureau of the PRC. Wuchang has been licensed to operate and develop all the forest in Wuchang municipality, Harbin city, Heilongjiang province, the PRC and its principal business includes timber harvesting, tree plantation, timber processing and development of other forestry products.

On 20 May 2006, the parties to the Joint Venture Agreement entered into a supplemental agreement pursuant to which the parties to the Joint Venture Agreement mutually committed the Joint Venture to pay the Target an additional service fee of US$31 (equivalent to approximately HK$241) per cubic meter of timber logged from the Forest for the provision of domestic transportation and administrative services, including transportation of logs from the Forest to Port of Georgetown (the international port of Guyana located in Georgetown for export clearance), container service, export clearance and documentation service. In view of the annual allowable cut of 200,000 cubic meters granted to the Joint Venture, the Joint Venture shall pay the Target a maximum of US$6.2 million (HK$48 million) per year as service fees. Apart from the royalties and service fees payable by the Joint Venture, currently, the Target has no other source of income. As at the Latest Practicable Date, the Joint Venture has received prepayment for purchases by Weihai (for details, please see the following section "Sales and Marketing") and has in turn paid US$450,000 to the Target as deposit and prepayment of royalty and service fees.

As at the Latest Practicable Date, a total of about 26,000 cubic meter of timber has been logged from the Forest of which about (i) 4,000 cubic meter has been sold to Weihai; (ii) 17,000 cubic meter of timber were harvested and transported to the Port Kaituma; and (iii) about 5,000 cubic meter of timber were harvested but remained in the Forest.

At the present stage, the Target has no intention to engage other parties to harvest timbers in the Forest beyond the annual cut of 200,000 cubic meters granted to the Joint Venture.

To the best of the Directors' knowledge, information, and belief having made all reasonable enquiries, Mr. Chu Wenze and Wuchang and its ultimate beneficial owners are third parties independent of each other, the Group and its connected persons (as defined under the Listing Rules) and their respective associates. Furthermore, the Vendor and Mr. Danny Chan confirmed that they have no relationship with Mr, Chu Wenze and Wuchang.

Sales and Marketing

The Joint Venture entered into a distribution agreement on 16 May 2006 with 威海東維進出口公司 (Weihai Dongwei Imp. & Exp. Co., Ltd*) engaging Weihai as its non-exclusive distribution agent in the PRC. Weihai is a subsidiary of Shandong Baishengyuan Group (the "SB Group"), a State First Grade Enterprise with over 40 years of experience in timber related business operation and has over 2,000 employees. The SB Group is one of the largest logging related machinery manufacturers in the PRC, its brands include machinery for laminated boards, furniture and integrated wood, and it has set up sales network and after-sale maintenance centers in most provinces and major cities in the PRC. The Directors are given to understand that Weihei is established with the intention to expand the business of the SB Group to include the production of processed wooden home furnishings; and that some of the timber purchased from the Joint Venture will be used for the SB Group's branded products. The Directors are of the view that given the strong reputation of the SB Group, and its well established sales network of processed timber companies, the distribution arrangement offers the Joint Venture a stepping stone in the PRC timber market.

As at the Latest Practicable Date, Weihai has paid the Joint Venture an aggregate sum of US$700,000 for deposit and prepayment of purchases.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, Weihai and its ultimate beneficial owners are third parties independent of the Enlarged Group and its connected persons (as defined under the Listing Rules) and their respective associates.

REASONS FOR THE ACQUISITION

The Company is principally engaged in the operation of cold storage warehousing and logistics management services. However, the Company has been searching for business opportunities to expand the Company's scope of business. As discussed in the section above and detailed in the following section headed "Financial and trading prospect of the Enlarged Group", the Directors are of the opinion that timber is one of the natural resources which has a continuous global demand. Consistent with the acquisition strategy of the Company as set out in its 2005 and 2006 annual report, the Directors are of the view that acquisition of the Target would provide the Company an opportunity to diversify its business into the natural resources sector that will broaden the revenue sources of the Company.

Pursuant to the Service Agreement, the Company will, upon Completion, employ Mr. Danny Chan as the managing director of the Target to run and attend to the day-to-day and overall management, strategic planning and development of the Target. Mr. Danny Chan is an experienced forestry expert who has extensive experience in managing and operating forestry companies. Further details of Mr. Danny Chan's background are set out in the sub-paragraph headed "Background of Mr. Danny Chan" below. The Company also plans to recruit another forestry expert who has experience in the logging, sawmilling, processing and trading of timber, to manage the operation of the Target.

Based on the above, the Directors, including the independent non-executive Directors, are of the view that the terms of the Acquisition are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP FOR THE PERIOD FROM 24 JANUARY 2002 (DATE OF INCORPORATION) TO 31 MARCH 2006

The Target was incorporated in Guyana as a private company with limited liability on 24 January 2002. Up to the period ended 31 March 2006, the Target had remained at a pre-commencement preparation stage and had not carried out any business operations except procuring the grant of the 25 years exclusive concession rights in respect of the Forest; incorporating the Joint Venture with strategic partners, procuring the provision of logging and operation equipment; and conducting pre-commencement preparation. Accordingly, the Target Group had not derived any turnover from the sale of any timbers during the period.

The Target was granted with a State Forest Exploratory Permit (01/2003) on 22 August 2003 which conveyed the Target with the rights to explore, research, investigate and evaluate the a forest area of approximately 167,000 hectares (412,000 acres). In 2004, the Target submitted its environmental impact assessment plan and five-year management plan setting forth all aspects of the forest operation procedure to the Guyana Forestry Commission as fulfillment of the preconditions for the grant of a timber sales agreement. The said documents were composed in accordance to the Guyana Forestry Commission Code of Practice for Timber Harvesting which sets out mandatory requirements for forest management, forest inventory design, environmental conservation, production operations and harvesting operations, such as, block demarcation, pre-harvesting inspection, logging procedures and types of equipment used, log markets construction, block allocation, felling and skidding operations, to ensure that the balanced tropical rain forest ecosystem can be preserved and perpetuity of a sustainable harvesting of the Forest can be achieved.

On 16 June 2004, the Target entered into a forest logging agreement with Wuchang, a strategic partner and independent contractor of the Target, for the provision of timber harvesting and processing services. On 22 December 2004, the Target entered into the Joint Venture Agreement, to set up the Joint Venture in relation to the operation and management of the Forest as well as distribution of timbers logged from the Forest.

On 11 January 2005, Environmental Protection Agency of Guyana granted an environmental permit to the Target. Subsequently the Guyana Forestry Commission entered into a Timber Sales Agreement with the Target granting the Target exclusive timber concession rights for a period of 25 years, commencing from 25 January 2005, to occupy and to harvest the Forest of approximately 136,900 hectares (338,000 acres) and issued an approval letter on 19 January 2006 approving the grant of additional 27,900 hectares (69,000 acres) of forest area to the Target for the purpose of cutting, taking and obtaining timbers. The Forest is managed under a sustained yield management program as set out in its five-year management plan to ensure ecological and economic sustainability of the operation of the Forest and the compliance with the Forests Act, Forests Regulations and the Environmental Protection Act of Guyana.

In August 2005, shipments of logging and processing equipment supplied by WuChang arrived in Guyana gradually. By the end of February, 2006, logging technicians sent by Wuchang were staffed in Guyana, road construction were completed and supporting facilities were assembled.

The whole pre-commencement preparation stage was completed in March 2006. However, it is noted that, as at 31 March 2006 the Target Group had not commenced any logging business, timber harvesting activities and falling and processing of lumber, and had not incurred any logging or harvesting costs. The audited consolidated losses of the Target Group for three years ended 31 December 2005 and three months ended 31 March 2006 were approximately HK$10,000, HK$438,000, HK$460,000 and HK$182,000 respectively. Such costs allocated mainly to the office overheads and expenses incurred for obtaining the concession rights of the Forest.

The major expenditure accrued in the financial statements of the Target Group were the acreage fees payable to the Guyana government for the Forest (which were collectively treated as the expenditure of the forest concession rights) according to the terms of the State Forest Exploratory Permit (01/2003) and the Timber Sales Agreement. For the three years ended 31 December 2005 and the three months ended 31 March 2006, the audited expenditure accrued for the timber exploratory or concession rights were approximately HK$1.39 million, HK$0, HK$7.61 million and HK$0 respectively. During the period ended 31 December 2003, approximately HK$1.39 million was paid as acreage fee for the three years exploratory rights of the Forest under the State Forest Exploratory Permit (01/2003) dated 22 August 2003 granted by Guyana Forestry Commission in respect of the Forest. During the year ended 31 December 2005, an additional acreage fee of approximately HK$7.61 million was accrued for the concession rights granted for a period of 25 years to occupy the Forest under the Timber Sales Agreement, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive). As a result, the total expenditure accrued for the concession rights and carried in the financial statements as at 31 March 2006 amounted to approximately HK$9 million. Such expenditure will be amortized on a straight line basis over the shorter of the contractual period and its useful life estimated based on the total proven and probable reserves of the forestry exploitation volume. As at 31 March 2006, a total of approximately HK$7.61 million of acreage fee was payable to the Guyana government over a 25 years period, such acreage fee will be payable annually based on the rate of US$0.12 (approximately HK$0.93) per acre for the concession rights granted.

Pursuant to the Acquisition Agreement, and as confirmed by Mr. Danny Chan, the net indebtedness of the Target Group, being the amount due to Mr. Danny Chan less the balance of cash at bank, as at the Completion Date shall be waived by Mr. Danny Chan. As at 31 December 2003, 2004, 2005 and 31 March 2006, the gearing ratio of the Target Group, being the ratio of total liabilities to total assets were approximately 0.99, 1.31, 0.997 and 1.02 times.

During the periods under review, the working capital of the Target was financed mainly with advances from its director, Mr. Danny Chan. The amounts of such borrowings for the three years ended 31 December 2005 and three months ended 31 March 2006 were approximately HK$1.38 million, HK$1.82 million, HK$1.30 million and HK$1.49 million respectively. The advances from Mr. Danny Chan were interest free and with no fixed payment terms. As at 31 March 2006, the Target Group recorded an audited net current liability of approximately HK$1.84 million. However, as the pre-commencement preparation stage has been completed, the Directors consider that the existing operation of the Target will readily yield income for the Target.

On the other hand, since the harvesting services (including logging, packing and processing) have been sub-contracted to an independent contractor by the Target Group, the management of the Target Group does not expect heavy investments in the fixed assets in the coming few years.

The management of the Target Group also considers that exposure to the fluctuations in exchange rates will be insignificant because the receipts from sales of timbers are mainly denominated in US dollars.

The Target Group did not have any material acquisition or disposal of fixed assets and investments in subsidiaries and associated companies other than the incorporation of the Joint Venture with the PRC Joint Venture Partners, of which the Target has 50% equity interest in the Joint Venture.

As at 31 March 2006, the Target Group did not have any material contingent liability.

FINANCIAL AND TRADING PROSPECT OF THE ENLARGED GROUP

The growth in PRC economy has been tremendous in the past few years.

The following table provides an overview of China's economic indicators and growth performance over recent years:

China	**2000**	**2001**	**2002**	**2003**	**2004**
GDP (RMB billion)	8,947	9,731	10,517	11,739	15,988
Real GDP Growth Rate	8.4%	8.3%	9.1%	10.0%	10.1%
Total Population (million persons)	1,267.4	1,276.3	1,284.5	1,292.3	1,299.9
Urban Population (million persons)	459.1	48.06	502.1	523.8	542.8
Urbanisation Rate (%)	36.2	37.7	39.1	40.5	41.8
Retail Sales of Consumer Goods (RMB billion)	3,415.3	3,759.5	4,202.7	4,584.2	5,395.0
Annual Disposable Income of Urban Households (RMB)	6,280	6,860	7,703	8,472	9,422
Annual Net Income of Rural Households (RMB)	2,253	2,366	2,476	2,622	2,936
Annual per Capita Consumption Expenditure of City Residents (RMB)	4,998	5,309	6,030	6,511	7,182

Source: National Burcau of Statistics, 2000-2005

Investment in real estate development has increased by a compound average growth rate of 27.5% per annum over the last five years. The gross floor area of new developments in 2004 was more than double of that in 2000.

	2000	**2001**	**2002**	**2003**	**2004**
Investment in real estate (RMB in billions)	498.4	634.4	779.1	1,015.4	1,315.8
Gross floor area of new developments (square metres in millions)	295.8	373.9	428.0	547.1	604.0
Average price of residential commodity properties (RMB per square metre)	1,948	2,017	2,092	2,197	2,549
Average price of commercial properties (RMB per square metre)	3,260	3,274	3,489	3,675	3,966

Source: National Burcau of Statistics, 2000-2005

In view of the economic expansion, urbanisation and population growth in the PRC, the Directors are of the view that demand for real estates and thus wood materials in the PRC will continue to grow in the long run despite the recent central government moves aimed at reining the skyrocketing housing prices in the Mainland. As such, the Directors are of the view that demand for household consumer goods is also expected to expand as a result of improved living standard and increased number of homeowners in the PRC. The Directors therefore came to the view that timber trading offers opportunities for the Company to capture the demand for wood material. It is also noted that, according to the recent press release of 27 February 2006 by 國家林業局 (the "PRC Forestry Department"), the PRC Government is determined to uphold the continual restriction on massive forest exploitation in the PRC. In view of the above and the continual economic growth in the PRC in the long run, the Directors believe that there are opportunities for the Company's timber trading business to capture the demand of the same in the PRC.

Apart from the Acquisition, on 7 January 2006, the Company entered into a capital injection agreement to acquire 51% equity interest of the enlarged registered capital of 河南阜源石油化工有限公司(Henan Fu Yuan Petroleum and Chemical Engineering Company Limited*) ("Fuyuan") for a consideration of approximately HK$26.5 million. Fuyuan, a private company incorporated in the PRC, is principally engaged in wholesale and retail of oil and gas products including gasoline, petroleum, diesel oil and lubricating oil. This acquisition which constitutes a very substantial acquisition to the Company under the Listing Rules was approved by the Shareholders on 12 June 2006 pending completion which is subject to the satisfaction or, as the case may be, waiver of other conditions precedent. The Directors expect that the said acquisition will be completed around September 2007.

On 16 May 2006, the Company and the Guarantor entered into the Garner Forest Option Agreement, pursuant to which the Guarantor grants the Option, at a nominal consideration of HK$1.00, to the Company to purchase a 51% shareholding in Garner for HK$60 million and undertakes that Garner will not conduct, carry out and undertake any business and other operations and activities which will compete directly with the Target within five years after Completion.

Garner was incorporated in Guyana, South America as a private company with limited liability. It has an authorised share capital of G$100,000 divided into 5,000 shares of G$20 each, all of which have been issued and fully paid. Garner is legally and beneficially held as to 99% by the Guarantor and 1% by three natural persons from Guyana and the PRC, whom to the best of the Director's knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Group and its connected persons (as defined under the Listing Rules) and their respective associates.

Garner is principally engaged in logging and forest exploitation, operation and management. The only asset of Garner is a grant of concession right for a period of 25 years commencing on 11 June 2005 to occupy the Garner Forest of an area of approximately 92,737 hectares in the State Forest of Guyana, South America. This exclusive timber concession right is granted on the basis that Garner will pay an annual acreage fee of US$0.12 (equivalent to approximately HK$0.93) per acre. Garner has not commenced any business since its incorporation.

Further announcement will be made in accordance with the Listing Rules, including the obtaining of the Shareholders' approval for the exercise of the Option.

The abovementioned proposed acquisitions by the Company are in line with the Company's intention to advance its business in the energy industry and natural resources market in the PRC and other countries with a view to diversify its business scope and strengthen the Group's earning base and asset quality. However, the Directors have no intention to discontinue the Company's existing business and expect that these businesses will continue in the foreseeable future.

Upon completion of the abovementioned transactions, in particular, the Acquisition, the Directors are confident that the turnover of the Enlarged Group will be significantly improved in the forthcoming year. The Target Group has commenced logging of timber in April 2006 and, given the sales contracts already secured by the Joint Venture under the distribution agreement entered into with Weihai on terms with annually adjustable fixed sales price per cubic meter of logs sold, it is expected that sales revenue will be generated from the Joint Venture by the second half of 2006.

Upon Completion, the Target and the Joint Venture will be managed and led by their respective boards of directors while their day-to-day operation will be dedicated to Mr. Danny Chan. Thus the whole operation of the Target Group will be under the leadership of the Company, through its control of the board and shareholding of the Target, with operational tasks dedicated to Mr. Danny Chan and the senior management of the Target Group.

At present, there are about 140 machine operators and 60 non-technical local Guyanise labour deployed to the Forest by Wuchang. In support of the harvesting activities, the total number of local Guyanise labour engaged by Wuchang is expected to be increased to about 240 by the end of 2006. During April to July 2006, the monthly harvesting volume of logs is about 6,000 cubic meters. The Target Group expects that the monthly harvesting volume will reach about 13,000 cubic meters by the end of this year and about 20,000 cubic meters by the end of mid 2007, by then the targeted annual harvesting volume of 200,000 cubic meters will be reached.

The Directors noted that the demand for timber has been high and the price for timber has experienced a steady growth in recent years. According to published tropical timber market reports collected by the Company, the average free on board price for major tropical log species exported by Guyana has increased from US$77 to US$109 per cubic meter in 2003, US$92 to US$114 in 2004, US$96 to US$140 in 2005 and US$106 to US$190 in July 2006. Furthermore, Guyana continues to broaden its range of species and products exported as certain range of previously underutilized hardwoods are now being exported for various end uses including decking, flooring, profiled lumber and truck flooring. In the long run, the Enlarged Group's financial position will be strengthened by the contribution of cash flow from the Target Group. At present, the only exporting country for the Joint Venture is the PRC and the Directors confirmed that the Company has no intention to sell the harvested timber in the local market of Guyana or any other market.

FINANCIAL EFFECTS OF THE ACQUISITION

Earnings

Upon Completion, earnings of the Target Group will be consolidated into the accounts of the Company. It is noted that the Target has not commenced operations until April 2006; apart from unforeseen circumstances, the Directors expect the Enlarged Group's turnover can be considerably improved by the sales revenue to be generated by the Target Group.

Asset and liabilities

Based on the pro forma statement of assets and liabilities of the Enlarged Group which has been prepared to illustrate the effect of the Acquisition as shown in Appendix III to this circular, upon Completion, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group will be approximately HK$198,099,000 and HK$22,037,000 respectively. The unaudited pro forma consolidated net assets of the Enlarged Group would be approximately HK$176,062,000, equivalent to approximately HK$0.026 per Share based on 6,662,449,917 Shares in issue as at the Latest Practicable Date.

THE SERVICE AGREEMENT

On 10 April 2006, the Company and the Target entered into the Service Agreement with Mr. Danny Chan. Subject to Completion, Mr. Danny Chan will be appointed as the managing director of the Target for an initial term of two years, after which, subject to consent of the Company, the Target has an option to (i) renew the service contract with Mr. Danny Chan for a further term of three years; or (ii) engage Mr. Danny Chan as a consultant of Target for a period of five years. In the event that the abovementioned option (i) is exercised, the Target has the right to exercise the abovementioned option (ii) following the end of option (i) arrangement. As the managing director, Mr. Danny Chan will be mainly responsible for, among others, the day-to-day and overall management, strategic planning and development of the Target, the Joint Venture and any forest owned by the Target in Guyana, South America.

Upon Completion, the Target will become a non-wholly owned subsidiary of the Company. Accordingly, the appointment of Mr. Danny Chan as director of the Target for a term that may exceed three years shall require the approval of the Shareholders at a general meeting pursuant to Rule 13.68(a) of the Listing Rules.

The Directors, including the independent non-executive Directors, consider that the terms of the Service Agreement are fair and reasonable and in the interests of the Shareholders as a whole. A letter from the Remuneration Committee of the Company, comprising all independent non-executive Directors appointed to advise on the Service Agreement, is set out in page 33 of this circular.

Remuneration, bonus and expenses

As remuneration for his services, Mr. Danny Chan shall be entitled to a salary of US$12,000 per month commencing on the Completion Date (or such other date as may from time to time be agreed) for a period of two years. The abovementioned salary will be reviewed on an annual basis and may be adjusted upwards at the sole discretion of the board of directors of the Target or the Board. In addition, Mr. Danny Chan may or may not be entitled to any discretionary bonus to be determined by the Company in its absolute discretion. Pursuant to the Service Agreement, any traveling expenses and all other outgoings incurred in the execution of his duties for business purposes may be reimbursed to Mr. Danny Chan.

Compensation for early termination

If either Mr. Danny Chan or the Target purports to terminate the Service Agreement after the initial two years term, he shall give the other party a 90-day notice or payment in lieu of notice provided that Mr. Danny Chan has no right to terminate the Service Agreement before the end of the term of 7 years (if his appointment not being renewed after the initial 2 years term) or 10 years (if renewed by the Target). The Target may only terminate the Service Agreement after the initial 2 years term by giving a 90-day notice.

Background of Mr. Danny Chan

Mr. Danny Chan, aged 62, is proposed to act as the managing director of the Target with effect from the Completion Date, subject to the approval by the Shareholders of the Service Agreement. Mr. Danny Chan is the chairman and director of the Target and has over 10 years of experience in the South America and Asia forest industry. Moreover, he had ventured with a forestry management company in Guangdong Province since 1995 and he is the founder of Hong Kong Tako Forestry Industries, a private company established in Suriname, South America, which was principally engaged in forest, logging and sawn timber factory. Hong Kong Tako Forestry Industries was sold in 1998. Mr. Danny Chan was also the owner of Ashera Central Holdings Limited, which was principally engaged in timber processing and was also subsequently sold.

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules, the Special Mandate and the Service Agreement are subject to, and conditional on, among others, the approval of the Shareholders at the SGM.

No Shareholder is required by the Listing Rules to abstain from voting on any resolutions that would be proposed to approve the Acquisition, the Special Mandate and the Service Agreement at the SGM.

THE SGM

A notice of the SGM to be held at Falcon Room II, Basement Floor, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong on 18 September 2006 at 11:00 a.m. is set out on page N1 to N3 of this circular, among others, for the purpose to consider and, if thought fit, to approve (1) the Acquisition; (2) the Special Mandate and (3) the Service Agreement.

The form of proxy for use in the SGM is enclosed with this circular. Whether or not you propose to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding of the SGM or any adjourned meeting thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting thereof, should you so desire.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Under Article 81 of the Articles of Association of the Company, at any general meeting of the Company, resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for poll) demanded by:

(i) the chairman of the meeting; or

(ii) at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) any Shareholder(s) present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) any Shareholder(s) present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll is duly demanded in accordance with the foregoing provisions, a declaration by the chairman of the general meeting that a resolution has been carried or lost or has or has not been carried by any particular majority, and an entry to that effect in the minutes of the proceedings of the Company, shall be conclusive evidence of the fact without proof of the number, proportion or validity of the votes recorded in favour of or against such resolution.

On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorized representative) or by proxy, shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or installments shall be treated as paid on the share). A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all his votes in the same way.

GENERAL

Shareholders and potential investors should note that the Acquisition, which is subject to a number of conditions precedent may or may not be completed. Shareholders and the investing public should exercise caution when dealing in the Shares, and if you are in any doubt about your position, you should consult your professional advisers.

RECOMMENDATION

The Directors believe that the Acquisition, the Special Mandate and the Service Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole and therefore recommend the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM to approve these transactions.

ADDITIONAL INFORMATION

Please refer to the appendices to this circular for additional information.

By order of the Board
Seapower Resources International Limited
Tsang Kam Ching, David
Executive Director

SEAPOWER RESOURCES INTERNATIONAL LIMITED
(凱暉國際實業有限公司*)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 269)

1 September 2006

To the Shareholders

Dear Sir or Madam,

DIRECTOR'S SERVICE AGREEMENT

As the Remuneration Committee of the Company, comprising all current independent non-executive directors and Mr. Tsang Kam Ching, an executive Director, we have been appointed to advise you in connection with the Service Agreement dated 10 April 2006 entered into between the Company, Jaling Forest Industries Inc and Mr. Danny Chan, details of which are set out in the letter from the Board contained in the circular of the Company dated 1 September 2006 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the experience of Mr. Danny Chan in the forestry industry and the market competitiveness of the remuneration package offered to him, we are of the opinion that the terms of the Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We therefore recommend that you vote in favour of the ordinary resolution no. 2 to be proposed at the SGM to approve the Service Agreement.

Yours faithfully,
Remuneration Committee

Mr. Yip Tak On	**Mr. Liu Ka Lim**	**Mr. Jing Baoli**	**Mr. Tsang Kam Ching**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*	*Executive Director*

* *For identification purposes only*

1. FINANCIAL SUMMARY

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31 March 2006.

(i) Results

	Year ended 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	4,129	8,521	9,996
Direct operating expenses	(3,955)	(6,623)	(8,489)
Other revenue	128	56	269
Other income	2,187	1,257	3,562
Selling and administrative expenses	(15,660)	(10,732)	(11,502)
Other operating expenses	—	—	(2,195)
Loss from operations	(13,171)	(7,521)	(8,359)
Finance costs	(406)	(476)	(23,572)
Net gain arising from debts discharged under Schemes of Arrangement ("the Schemes")	—	—	632,718
Gain on de-consolidation of subsidiaries under the Schemes	—	—	706,083
(Loss)/profit before taxation	(13,577)	(7,997)	1,306,870
Taxation — Credit/(charge)	—	185	(7,809)
(Loss)/profit for the year	(13,577)	(7,812)	1,299,061
Attributable to:—			
Equity holder of the Company	(13,577)	(7,812)	1,299,079
Minority interest	—	—	(18)
	(13,577)	(7,812)	1,299,061
Dividends	—	—	—
	HK	*HK*	*HK*
(Loss)/earnings per share			
basic	(0.21 cents)	(0.15 cents)	81.50 cents
diluted	N/A	N/A	N/A

(ii) Assets and liabilities

	As at 31 March		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Non-current assets			
Property, plant and equipment	29,311	19,501	19,741
Prepaid lease payments	3,635	—	—
	32,946	19,501	19,741
Current assets			
Financial assets at fair value through profit or loss	1,683	—	—
Trade and other receivables	955	2,401	2,703
Short-term fixed deposit	15,000	—	—
Cash and bank balances	16,966	6,820	6,089
	34,604	9,221	8,792
Current liabilities			
Bank overdrafts	171	—	—
Trade and other payables	2,148	3,127	3,802
Amounts due to subsidiaries under liquidation	490	490	490
Tax payable	—	—	185
Convertible note	—	—	5,000
Bank loan — due within one year (secured)	555	603	742
	3,364	4,220	10,219
Net current assets/(liabilities)	31,240	5,001	(1,427)
Total assets less current liabilities	64,186	24,502	18,314
Non-current liabilities			
Bank loan — due after one year (secured)	3,528	4,435	4,968
Deferred tax liabilities	241	—	—
	3,769	4,435	4,968
ASSETS LESS LIABILITIES	60,417	20,067	13,346
CAPITAL AND RESERVES			
Share capital	66,023	62,466	47,888
Reserves	(5,606)	(42,399)	(34,542)
TOTAL EQUITY	60,417	20,067	13,346

(iii) Reports of the auditors for the financial statements of the Group for the three years ended 31 March 2006

Set out below are full texts of the auditors' report for the Group for the three years ended 31 March 2006 as extracted from the respective annual report of the Company. Reference to page numbers and note numbers in the auditors' report is to the page numbers of the respective annual report of the Company.

Auditors' Report — for year ended 31 March 2004

CCIF

Charles Chan, Ip & Fung CPA Ltd.
37th Floor, Hennessy Centre
500 Hennessy Road
Causeway Bay, Hong Kong

To the Shareholders of
Seapower Resources International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 16 to 62 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 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability towards 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. 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 directors 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. 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.

Fundamental Uncertainty Relating To The Going Concern Basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(c) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As at 31 March 2004, the Group and the Company had net current liabilities of approximately HK$1,427,000 and HK$2,310,000 respectively. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available to meet the debts as and when they fall due in the foreseeable future. The financial statements do not include any adjustments that may result from the failure to obtain such funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2004 and of the profit and cash flows of the Group for the year then ended and have been prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Charles Chan, Ip & Fung CPA Ltd.
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 7 June 2004

Auditors' Report — for year ended 31 March 2005

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To the Shareholders of
Seapower Resources International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 15 to 49 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 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 solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability towards 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 Institute of Certified Public Accountants. 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 directors 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 and performed 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. In forming our opinion we also evaluated the overall adequacy of the preparation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Chan Wai Dune, Charles
Practising Certificate Number P00712

Hong Kong, 28 June 2005

Auditors' Report — for year ended 31 March 2006

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

To The Shareholders of
Seapower Resources International Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 18 to 59 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 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, and for no other purpose. We do not assume responsibility towards or accept liability towards any other person for the contents of this report.

Basis of Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. 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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed 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. In forming our opinion we also evaluated the overall adequacy of the preparation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion 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 2006 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

CCIF CPA Limited
Certified Public Accountants

Choi Man On
Practising Certificate Number P02410

Hong Kong, 18 July 2006

2. AUDITED CONSOLIDATED FINANCIAL STATEMENT OF THE GROUP FOR THE YEAR ENDED 31 MARCH 2006

The following financial information has been extracted from the annual report of the Company for the year ended 31 March 2006 together with notes thereto:

Consolidated Income Statement
For the year ended 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
TURNOVER	5	4,129	8,521
DIRECT OPERATING EXPENSES		(3,955)	(6,623)
OTHER REVENUE	5	128	56
OTHER INCOME	6	2,187	1,257
SELLING AND ADMINISTRATIVE EXPENSES		(15,660)	(10,732)
LOSS FROM OPERATIONS	7	(13,171)	(7,521)
FINANCE COSTS	8	(406)	(476)
LOSS BEFORE TAXATION		(13,577)	(7,997)
TAXATION	9	—	185
LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12	(13,577)	(7,812)
DIVIDENDS	13	—	—
		HK	HK
LOSS PER SHARE	14		
BASIC		(0.21 cents)	(0.15 cents)
DILUTED		N/A	N/A

Consolidated Balance Sheet
At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	29,311	19,501
Prepaid lease payments	17	3,635	—
		32,946	19,501
Current assets			
Financial assets at fair value through profit or loss	19	1,683	—
Trade and other receivables	20	955	2,401
Short-term fixed deposit	21	15,000	—
Cash and bank balances		16,966	6,820
		34,604	9,221
Current liabilities			
Bank overdrafts		171	—
Trade and other payables	22	2,148	3,127
Amounts due to subsidiaries under liquidation		490	490
Bank loan — due within one year (secured)	24	555	603
		3,364	4,220
Net current assets		31,240	5,001
Total assets less current liabilities		64,186	24,502
Non-current liabilities			
Bank loan — due after one year (secured)	24	3,528	4,435
Deferred tax liabilities	25	241	—
		3,769	4,435
ASSETS LESS LIABILITIES		60,417	20,067
CAPITAL AND RESERVES			
Share capital	26	66,023	62,466
Reserves		(5,606)	(42,399)
TOTAL EQUITY		60,417	20,067

Balance Sheet
At 31 March 2006

	Note	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	16	670	739
Interests in subsidiaries	18	9,101	1,878
		9,771	2,617
Current assets			
Financial assets at fair value through profit or loss	19	1,683	—
Trade and other receivables	20	578	641
Short-term fixed deposit	21	15,000	—
Cash and bank balances		16,592	6,180
		33,853	6,821
Current liabilities			
Trade and other payables	22	956	567
Amounts due to subsidiaries	23	484	489
		1,440	1,056
Net current assets		32,413	5,765
ASSETS LESS LIABILITIES		42,184	8,382
CAPITAL AND RESERVES			
Share capital	26	66,023	62,466
Reserves		(23,839)	(54,084)
TOTAL EQUITY		42,184	8,382

Statements of Changes in Equity
For the year ended 31 March 2006

Group

	Issued capital	Share premium	Capital redemption reserve	Capital reserve	Asset revaluation reserve	Translation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 April 2004	47,888	432,722	3,800	20,918	7,965	(957)	(498,990)	13,346
Issue of new ordinary shares	14,578	—	—	—	—	—	—	14,578
Exchange differences	—	—	—	—	—	(45)	—	(45)
Loss for the year	—	—	—	—	—	—	(7,812)	(7,812)
At 31 March 2005 and 1 April 2005	62,466	432,722	3,800	20,918	7,965	(1,002)	(506,802)	20,067
Issue of new ordinary shares	3,557	41,762	—	—	—	—	—	45,319
Exchange differences	—	—	—	—	—	182	—	182
Revaluation surplus	—	—	—	—	8,667	—	—	8,667
Deferred tax arising from revaluation of building	—	—	—	—	(241)	—	—	(241)
Loss for the year	—	—	—	—	—	—	(13,577)	(13,577)
At 31 March 2006	66,023	474,484	3,800	20,918	16,391	(820)	(520,379)	60,417

Company

	Issued capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 April 2004	47,888	432,722	3,800	64,314	(547,251)	1,473
Issue of new ordinary shares	14,578	—	—	—	—	14,578
Loss for the year	—	—	—	—	(7,669)	(7,669)
At 31 March 2005 and 1 April 2005	62,466	432,722	3,800	64,314	(554,920)	8,382
Issue of new ordinary shares	3,557	41,762	—	—	—	45,319
Loss for the year	—	—	—	—	(11,517)	(11,517)
At 31 March 2006	66,023	474,484	3,800	64,314	(566,437)	42,184

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of subsidiaries when they were acquired by the Company and the nominal amount of the Company's share capital issued for the acquisition.

In accordance with the provision of the Company's Articles of Association, there was no reserve available for distribution to shareholders of the Company as at 31 March 2006 and 2005.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006	2005
	HK$'000	*HK$'000*
LOSS BEFORE TAXATION	(13,577)	(7,997)
Adjustments for:		
Interest expenses	406	476
Interest income	(128)	(56)
Depreciation	1,699	1,702
Amortization of prepaid lease payments	81	—
(Gain)/Loss on disposal of property, plant and equipment	(20)	12
Unrealized loss on financial assets at fair value through profit or loss	9	—
	2,047	2,134
OPERATING CASH OUTFLOW BEFORE CHANGES IN WORKING CAPITAL	(11,530)	(5,863)
Decrease in trade and other receivables	1,446	302
Decrease in trade and other payables	(979)	(675)
	467	(373)
NET CASH USED IN OPERATIONS	(11,063)	(6,236)
Interest paid	(406)	(476)
Interest received	128	56
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(11,341)	(6,656)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	518	3
Purchase of property, plant and equipment	(4,765)	(1,240)
Lease payments for land use rights	(3,716)	—
Purchase of financial assets at fair value through profit or loss	(1,692)	—
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(9,655)	(1,237)
NET CASH OUTFLOW BEFORE FINANCING	(20,996)	(7,893)
FINANCING		
Repayment of bank loan	(955)	(672)
Issue of new ordinary shares	45,319	9,578
NET CASH INFLOW FROM FINANCING	44,364	8,906

	2006	2005
	HK$'000	*HK$'000*
INCREASE IN CASH AND CASH EQUIVALENTS	23,368	1,013
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,607	(282)
CASH AND CASH EQUIVALENTS AT BEGINNING	6,820	6,089
CASH AND CASH EQUIVALENTS AT END OF YEAR	31,795	6,820
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	16,966	6,820
Short-term bank deposits	15,000	—
Bank overdrafts	(171)	—
	31,795	6,820

Notes to the Financial Statements

31 March 2006

1. General Information

The Company is an exempted company incorporated in the Cayman Islands with limited liability. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "SEHK"). The address of its registered office is the office of Caledonian Bank & Trust Limited, Caledonian House, George Town, Grand Cayman, Cayman Islands.

The Company is an investment holding company. The Group is principally engaged in cold storage warehousing and logistics management services.

These consolidated financial statements are presented in the thousands of Hong Kong dollars (HK$'000), unless otherwise stated.

2. Principal Accounting Policies

(a) Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"), which also include Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of leasehold buildings, freehold land and other financial assets at fair value through profit or loss which are carried at fair value.

The adoption of new/revised HKFRS

In the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Change in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employees Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowings Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provision, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets

HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS-Int 15	Operating Leases-Incentives
HKAS-Int 21	Income Taxes-Recovery of Revalued Non-Depreciated Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 7, 8, 10, 14, 16, 17, 18, 19, 21, 23, 24, 27, 32, 33, 36, 37, 38, 39 and HKAS-Ints 15, 21, HKFRS 2 and 3 did not result in substantial change to the accounting policies of the Group. In summary:

— HKASs 1, 8, 16, 21 affect certain disclosures of the financial statements.

— HKASs 7, 10, 14, 18, 19, 23, 27, 33, 37 and HKAS-Int 15 had no material effect on the policies of the Group.

— HKAS 24 affected the identification of related parties and some other related-party disclosures.

— HKFRS 3 and HKASs 36 and 38 had no impact on the Group's policies. There has been no goodwill brought forward arising from business combinations and no intangible assets.

In accordance with the provisions of HKAS 17, leasehold properties are split into a lease of land and a lease of building in proportion to the relative fair values of the interests in the land element and the building element of the lease at the inception of the lease. The lease premium for leasehold land is stated at cost and amortised over the period of the lease, There is no material effect on the Group's financial statement in prior years as there was no leasehold properties brought forward from the prior year and the leasehold land at 31 March 2006 was acquired during the year.

The adoption of revised HKAS-Int 21 has resulted in a change in the accounting policy relating to the deferred taxation of the Group's cold storage warehouse. In accordance with the provision of HKAS-Int 21, the deferred tax liabilities arising from the revaluation of cold storage warehouse is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through sales. No recognition of deferred tax liabilities was made for the temporary difference arising from the revaluation surplus brought forward and at 31 March 2006 (other than HK$241,000 provided in the financial statements) as there are sufficient available tax losses carried forward to offset the liabilities.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. However, there has been no effect as the Group had no outstanding share options brought forward and during the year ended 31 March 2006.

The adoption of HKASs 32, 39 and 39 (Amendment) resulted in a change in the accounting policies relating to the classification of financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. It also resulted in the recognition of derivative financial instruments at fair value.

Certain new standards, amendments and interpretations to existing standards which have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, are as follows:

— HKAS 19 (Amendment)
Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1 January 2006)

— HKAS 39 (Amendment)
Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)

— HKAS 39 (Amendment)
The Fair Value Option (effective from 1 January 2006)

— HKAS 39 and HKFRS 4 (Amendment)
Financial Guarantee Contracts (effective from 1 January 2006)

— HKFRS 7
Financial Instruments Disclosure and a complementary amendment to HKAS 1 Presentation of Financial Statements-Capital Disclosures (effective from 1 January 2007)

— HKFRS-Int 4
Determining whether an Arrangement contains a Lease (effective from 1 January 2006)

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to quantify the impact of these new standards, amendments and interpretations on its results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March 2006.

(i) Subsidiaries

Subsidiaries are all entities over which the Group had the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control was transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group during the year. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the share of the identifiable net assets acquired by the Group was recorded as goodwill. If the cost of acquisition was less than the fair value of the net assets of the subsidiary acquired, the difference was recognised directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the balance sheet of the Company, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable.

(c) Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign Currency Translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Change in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of the Group entities (one of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Property, Plant and Equipment

Properties comprise mainly cold storage warehouse and buildings. Properties are stated at fair value, based on periodic valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All property, plant and equipment are stated at historic cost less depreciation and impairment losses. Historic cost includes expenditure that is directly attributable to the acquisition of the item.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Increase in the carrying amount arising on revaluation of properties are credited to the asset revaluation reserve. Decreases that offset previous increase of the same asset are charged against asset revaluation reserve directly, all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residue values over their estimated useful lives. The principal annual rates used for this purpose are:

Buildings	5% — 11%
Furniture machinery and equipment	20%
Motor vehicles	20%

The freehold land is not subject to depreciation and is stated at valuation. The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset was greater than its estimated recoverable amount.

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill on acquisitions of associated companies is included in investments in associated companies. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(g) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

— For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

— For financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets).

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

— For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

— property, plant and equipment (other than properties carried at revalued amounts);

— pre-paid interests in leasehold land classified as being held under an operating lease;

— intangible assets;

— investments in subsidiaries, associates and joint ventures (except for those classified as held for sale (or included in a disposal group that is classified as held for sale) *(see note 2(b)(i))*; and

— goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

— Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(h) Financial assets

The Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables and other receivables as refined to *Note 2(i)*) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. At each balance sheet date subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed on initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment with 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investment are based on current bid prices. For unlisted securities are determined by using valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model refined to reflect the issuer's specific circumstances.

The Group reassesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case equity securities classified as available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(i) Trade and Other Receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) Cash and Cash Equivalents

Cash and cash equivalent include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

(k) Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below:

(i) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

(ii) Other financial liabilities

Other financial liabilities including bank and other borrowings, trade payables and other payables are subsequently measured at amortised cost, using the effective interest rate method.

(iii) Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(l) Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at lease 12 months after the balance sheet date.

(n) Deferred Income Tax

Deferred income tax was provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arose from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affected neither accounting nor taxable profit or loss. Deferred income tax was determined using tax rates that are enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset was realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit would be available against which the temporary differences could be utilized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference would not reverse in the foreseeable future.

(o) Employee Benefits

(i) Retirement benefit cost

The Group operates a defined contribution retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the participating employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those the Group in an independently administered fund.

(ii) Share-based payments

The Group has granted options under the new share option scheme. The fair value of the employee services in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

(p) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(q) Revenue Recognition

(i) Cold storage service income is recognised pro-rata over the life of the agreement and on an accrual basis.

(ii) Logistics management service income is recognised on the services rendered.

(iii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(iv) Dividend income is recognised when the shareholders' rights to receive payment is established.

(r) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are expenses in the income statement on a straight-line basis over the period of the lease.

(ii) Finance leases

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payments is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognised in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(s) Borrowing Costs

Borrowing costs are recognised in the income statement in which they are incurred.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

3. Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, fair value, interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Market risks

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are made to customers with an appropriate credit history.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the available of funding through an adequate amount of committed credit facilities and the ability to close our market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial assets through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group used a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charge for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. Turnover and Other Revenue

The Company is an investment holding company. The Group is engaged in the provision of cold storage warehousing and logistics management services.

	2006	**2005**
	HK$'000	*HK$'000*
Turnover		
Income from cold storage warehousing and logistics management	4,129	8,521
Other revenue		
Interest income	128	56
	4,257	8,577

6. Other Income

Other income comprises:

	2006	**2005**
	HK$'000	*HK$'000*
Exchange gain, net	—	1,140
Gain on disposal of property, plant and equipment	20	—
Realized gain on disposal of financial assets	785	—
Loan waived by a former director	1,310	—
Others	72	117
	2,187	1,257

7. Loss from Operations

Loss from operations is stated after charging:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration		
— Current year	330	250
— Underprovision in previous years	1	—
Depreciation	1,699	1,702
Amortization of lease payments for land use right under operating lease	81	—
Exchange loss, net	1,288	—
Staff costs including retirement costs of HK$80,401 (2005: HK$56,816)	4,395	5,414
Loss on disposal of fixed assets	—	12

8. Finance Costs

	2006	2005
	HK$'000	*HK$'000*
Interest on bank and other borrowings wholly repayable within five years	406	476

9. Taxation

The credit comprisesd:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong Profits Tax	—	—
Over provision for overseas taxation in prior years	—	(185)
	—	(185)

The taxation for the year can be reconciled to the loss per the consolidation income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Loss before taxation	(13,577)	(7,997)
Calculated at a taxation rate of 17.5% (2005: 17.5%)	(2,375)	(1,399)
Over-provision in prior years	—	(185)
Net effect of non-taxable/deductible items	1,538	172
Utilisation of tax losses	(70)	—
Net effect of tax losses and temporary differences not recognised	907	1,227
	—	(185)

No provision for Hong Kong Profits Tax and taxation in overseas countries, in which the Group operates, have been made in the financial statements as the Group did not have any assessable profits derived in the respective jurisdictions for both years.

10. Directors' Remuneration

The remuneration of every director charged to the income statement for the year ended 31 March 2006 is set out below:

Name of directors	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Fung Tsun Pong	—	689	—	—	13	702
Tsang Kam Ching, David	—	71	—	—	4	75
Zhao Ming	—	—	—	—	—	—
Chan Chun Hing, Kenneth	—	—	—	—	—	—
Independent non-executive director						
Liu Ka Lim	120	—	—	—	—	120
Yip Tak On	120	—	—	—	—	120
Jing Baoli	—	—	—	—	—	—
Wang Ji Cheng	50	—	—		—	50
	290	760	—	—	17	1,067

The remuneration of every director charged to the income statement for the year ended 31 March 2005 is set out below:

Name of directors	Fees	Salary	Discretionary bonuses	Other benefits	Employer's contribution to pension scheme	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors						
Fung Tsun Pong	—	—	—	—	—	—
Tsang Kam Ching, David	—	—	—	—	—	—
Chan Chun Hing, Kenneth	220	770	—	—	11	1,001
U Keng Tin	49	—	33	28	3	113
Zhao Ming	—	—	—	—	—	—
Independent non-executive directors						
Liu Ka Lim	—	—	—	—	—	—
Yip Tak On	—	—	—	—	—	—
Jing Baoli	—	—	—	—	—	—
Lee Kwan Hung, Eddie	120	—	—	—	—	120
Yau Sui Ki, Christie	117	—	—	—	—	117
Wang Ji Cheng	—	—	—	—	—	—
	506	770	33	28	14	1,351

11. Individuals with Highest Emoluments

During the year, the five highest paid individuals included one (2005: one) director, details of whose emoluments are set out above. The emoluments of the four (2005: four) individuals are as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Salaries and other benefits	2,078	1,557
MPF Scheme contributions	52	83
	2,130	1,640

The emoluments of the employees are within the following band:

	Number of employees	
	2006	**2005**
Nil — HK$1,000,000	4	4

During the years ended 31 March 2006 and 2005, no emoluments were paid by the Group to the five individuals with the highest emoluments as an inducement to join or upon joining the Group or as compensation for loss of office.

12. Loss Attributable to Shareholders

The consolidated loss attributable to shareholders of the Company for the year ended 31 March 2006 amounted to approximately HK$11,517,000 (2005: Loss of HK$7,669,000) which has been dealt with in the financial statements of the Company.

13. Dividends

The Directors of the Company do not recommend the payment of a dividend for the year ended 31 March 2006 (2005: Nil).

14. Loss Per Share

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company for the year of approximately HK$13,577,000 (2005: loss of HK$7,812,000) and on the weighted average number of 6,353,365,217 (2005: 5,047,226,422) shares in issue during the year.

There were no potential dilutive shares in existence for the years ended 31 March 2006 and 2005 and accordingly, no diluted loss per share amount has been presented for both years.

15. Segment Information

(a) Business segment

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

(b) Geographical segments

The following table presents revenue, results and certain assets and expenditure for the Group's geographical segments for the two years ended 31 March 2006 and 2005:

	Hong Kong & PRC		**Australia**		**Consolidated**	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE						
External revenue	—	—	4,129	8,521	4,129	8,521
Other revenue	117	—	11	56	128	56
Total revenue	117	—	4,140	8,577	4,257	8,577
SEGMENT RESULTS	(9,276)	(7,533)	(3,895)	12	(13,171)	(7,521)
Other information:						
Segment assets	42,382	7,612	25,168	21,110	67,550	28,722
Capital expenditure	3,585	301	1,180	939	4,765	1,240

16. Property, Plant and Equipment

Group

	Cold storage warehouse		Building		Furniture, machinery and equipment		Motor vehicles		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation										
At 1 April	18,681	18,409	—	1,620	9,546	8,726	697	686	28,924	29,441
Exchange adjustments	(1,483)	272	—	—	(589)	112	(55)	11	(2,127)	395
Additions	—	—	3,460	—	1,305	1,240	—	—	4,765	1,240
Surplus on revaluation	5,702	—	730	—	—	—	—	—	6,432	—
Disposals	—	—	—	(1,620)	(1,145)	(532)	—	—	(1,145)	(2,152)
At 31 March	22,900	18,681	4,190	—	9,117	9,546	642	697	36,849	28,924
Analysis of cost or valuation										
At cost	—	—	—	—	9,117	9,546	642	697	9,759	10,243
At valuation	22,900	18,681	4,190	—	—	—	—	—	27,090	18,681
	22,900	18,681	4,190	—	9,117	9,546	642	697	36,849	28,924
Depreciation and amortisation or impairment										
At 1 April	1,517	598	—	1,620	7,359	7,022	547	460	9,423	9,700
Exchange adjustments	(157)	41	—	—	(498)	108	(47)	9	(702)	158
Charge for the year	875	878	—	—	746	746	78	78	1,699	1,702
Written back on revaluation	(2,235)	—	—	—	—	—	—	—	(2,235)	—
Eliminated on disposals	—	—	—	(1,620)	(647)	(517)	—	—	(647)	(2,137)
At 31 March	—	1,517	—	—	6,960	7,359	578	547	7,538	9,423
Net book value										
At 31 March	22,900	17,164	4,190	—	2,157	2,187	64	150	29,311	19,501

Company

	Furniture, machinery and equipment	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April		
Cost	924	—
Additions	125	924
At 31 March	1,049	924
Depreciation		
At 1 April	185	—
Charge for the year	194	185
At 31 March	379	185
Net book value		
At 31 March	670	739

The cold storage warehouse and building with carrying value of HK$22,900,000 (2005: HK$17,164,000) and HK$4,190,000 are hold under a freehold and medium term lease, respectively, outside Hong Kong.

The cold storage warehouse and building were revalued at 31 March 2006 on the basis of open market value by RHL Appraisal Limited, an independent firm of valuers. The revaluation surplus net of applicable deferred tax liability was credited to the asset revaluation reserve.

At 31 March 2006, cold storage warehouse and plant and equipment with an aggregate net book value of HK$24,075,000 (2005: HK$18,351,000) were pledged as security for bank loan facilities granted to the Group *(Note 32)*.

17. Prepaid Lease Payments

The Group's prepaid lease payments represent land use rights in the PRC under medium term lease.

Leasehold land outside Hong Kong:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Long lease	—	—
Medium-term lease	3,535	—
Short lease	—	—
	3,535	—
At 1 April	—	—
Addition	3,716	—
Amortisation	(81)	—
At 31 March	3,635	—

18. Interests in Subsidiaries

	Company	
	2006	**2005**
	HK$'000	*HK$'000*
Unlisted shares, at cost	10	—
Amounts due from subsidiaries	395,954	387,740
	395,964	387,740
Less: Impairment losses recognised	(386,863)	(385,862)
	9,101	1,878

Particulars of the Company's subsidiaries as at 31 March 2006 are set out in Note 34 to the financial statements.

The amounts due from subsidiaries are unsecured, interest free and not repayable within the next twelve months from the balance sheet date.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

19. Financial Assets at Fair Value Through Profit or Loss

	Group and Company 2006 *HK$'000*	2005 *HK$'000*
Trading securities		
— Listed equity securities in Hong Kong	1,683	—
Market value of listed securities	1,683	—

20. Trade and Other Receivables

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	299	906	—	—
Other receivables	40	190	40	150
Deposits paid	504	501	493	491
Prepayments	112	804	45	—
	955	2,401	578	641

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

Details of the aged analysis of trade receivables of the Group and Company are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 30 days	40	399	—	—
31 — 60 days	259	343	—	—
61 — 180 days	—	164	—	—
More than 180 days	—	—	—	—
	299	906	—	—

21. Short-Term Fixed Deposit

	Group and Company 2006 *HK$'000*	2005 *HK$'000*
Short-term bank deposit	15,000	—

The effective interest rate of short-term fixed deposits is 3.82% per annum. The deposits have an average maturity of 32 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

22. Trade and Other Payables

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	—	554	—	—
Other payables and accruals	2,148	2,573	956	567
	2,148	3,127	956	567

Details of the aged analysis of trade payables of the Group and Company are as follows:

	Group		Company	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 — 30 days	—	166	—	—
31 — 60 days	—	49	—	—
61 — 90 days	—	—	—	—
More than 90 days	—	339	—	—
	—	554	—	—

23. Amounts due to Subsidiaries

The amounts due to subsidiaries are unsecured, interest free and have no fixed repayment terms.

24. Bank Loan

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
Bank loan — secured	4,083	5,038

The bank loan is repayable as follows:

Within one year or on demand	555	603
More than one year, but not exceeding two years	555	603
More than two year, but not exceeding five years	1,664	1,808
Over five years	1,309	2,024
	4,083	5,038
Less: Amount due within one year or on demand and shown under current liabilities	(555)	(603)
Amount due after one year	3,528	4,435

25. Deferred Taxation

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April	—	—
Deferred taxation charged directly to reserves	241	—
At 31 March	241	—

The movement in deferred tax liabilities during the year was as follows:

	Group	
	2006	**2005**
	HK$'000	*HK$'000*
At 1 April	—	185
Revaluation of building	241	(185)
At 31 March	241	—

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has available Hong Kong tax losses of HK$51,247,000 (2005: HK$50,437,000) to be carried forward for offset against future taxable income. The tax losses may be carried forward indefinitely.

As the balance sheet date, temporary differences associated with the revaluation on overseas properties of HK$15,661,000 for which deferred tax liabilities have not been recognised because there are sufficient tax losses carried forward to offset the liability in the tax jurisdiction in which the Group operates.

26. Share Capital

	Note	**No. of shares**	*HK$'000*
Authorised:			
At 31 March 2006 and at 31 March 2005 ordinary shares of HK$0.01 each		10,000,000,000	100,000
Issued and fully paid:			
At 1 April 2004 ordinary shares of HK$0.01 each		4,788,822,570	47,888
Issue of new ordinary shares	*(a), (b)*	1,457,764,514	14,578
At 31 March 2005 ordinary share of HK$0.01 each		6,246,587,084	62,466
Issue of new ordinary shares	*(c)*	355,706,583	3,557
At 31 March 2006 ordinary share of HK$0.01 each		6,602,293,667	66,023

(a) On 23 December 2004, the holder of the convertible note in the principal amount of HK$5,000,000 exercised the options to convert the whole note into 500,000,000 ordinary shares of HK$0.01 each at par, which rank pari passu in all respects with the existing shares of the Company.

(b) On 3 January 2005, the holder of the Warrants of HK$3,000,000 exercised the attached rights to subscribe 300,000,000 ordinary shares of HK$0.01 each in the capital of the Company which were allotted and issued at par on the same date.

On 4 March 2005, the holder of the remaining Warrants of HK$6,577,645 exercised the attached rights to subscribe 657,764,514 ordinary shares of HK$0.01 each in the capital of the Company which were allotted and issued at par on the same date.

All these new shares rank pari passu in all respects with the existing shares of the Company.

(c) On 29 June 2005, 106,400,000 ordinary shares of HK$0.01 each were issued at HK$0.125 per share. The proceeds were intended to be used as additional working capital for the Group and investment in clean energy project.

On 3 November 2005, 53,994,083 ordinary shares of HK$0.01 each were issued at HK$0.13 per share as settlement of consideration for the acquisition of land and buildings in the PRC under a sale and purchase agreement dated 19 August 2005. Details of which were disclosed in the announcement of the Company dated 22 August 2005.

On 24 March 2006, 195,312,500 ordinary shares of HK$0.01 each were issued at HK$0.128 per share. The proceeds will be used for the acquisition of 51% equity interest in 河南阜源石油化工有限公司. Details of which were disclosed in the announcement of the Company dated 11 January 2006.

All these new ordinary shares rank pari passu in all respects with the existing shares of the Company.

27. Share Option Scheme

The Share Option Scheme adopted on 30 September 1999 was terminated and replaced by a New Share Option Scheme on 16 July 2004. The New Share Option Scheme shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

The exercise price of the options shall be determined by the Directors of the Company, but may at least the highest of (i) the Sock Exchange closing price of the Company's shares on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant of the share options; and (iii) the nominal value of an ordinary share. The maximum number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

No share options has been granted, exercised, cancelled or lapsed under the New Share Option Scheme during the year ended 31 March 2006 or outstanding as at 31 March 2006.

The option granted to the two directors and certain employees of the Group in June 2006 were set out in note 35(a) to the financial statements.

28. Retirement Benefit Schemes

With effect from 1 December 2000, the Group has also joined a MPF Scheme for all employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the scheme.

The MPF Scheme is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income for contribution purpose is HK$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

29. Operating Lease Commitments

The Group leases its office and staff quarter under non-cancelled operating lease arrangements with remaining lease terms ranging from one to two years.

At 31 March 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006	**2005**
	HK$'000	*HK$'000*
Within one year	882	1,570
In the second to fifth years, inclusive	130	882
	1,012	2,452

30. Capital Commitment

	2006	**2005**
	HK$'000	*HK$'000*
Contracted but not provided for	26,500	—

This represents capital commitment for the capital contribution for 51% equity interest in the enlarged paid-up capital of the Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

31. Contingent Liabilities

The Company has executed guarantee for banking facilities granted to one of its subsidiaries. The utilised amount of such facilities covered by the Company's guarantee which also represented the financial exposure of the Group as at 31 March 2006 amounted to approximately HK$5,300,000 (2005: HK$5,700,000). As at 31 March 2006, the borrowings outstanding against the facilities amounted to HK$4,000,000 (2005: HK$5,000,000).

32. Pledge of Assets

At 31 March 2006, cold storage warehouse and plant and equipment with an aggregate net book value of HK$24,075,000 (2005: HK$18,351,000) were pledged as security for bank loan facilities granted to the Group.

33. Related Party and Connected Transactions

(i) Pursuant to an agreement dated 3 January 2006, Mr. Chan Chun Hing, Kenneth, the former director, waived an outstanding loan of HK$1,310,000 advanced to the Group under a loan agreement dated 30 June 2005, which has been credited to the income statement of the Group for the year ended 31 March 2006.

(ii) During the year, the Company paid HK$48,000 handling fees to Hooray Securities Limited, a company in which Mr Tsang Kam Ching, David is a common director.

(iii) Management fees paid to:

	Group		**Company**	
	2006	**2005**	**2006**	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Integrated Project Solutions Limited	—	120	—	—

During the last year, management fees of HK$120,000 were paid to Integration Project Solutions Limited, company in which the Company's former director, Mr. Chan Chun Hing, Kenneth was a common director and beneficial owner. The charge was determined and agreed mutually.

(iv) Key management compensation

Details of compensation for the key management of the Group are disclosed in notes 10 and 11 to the financial statements.

34. Particulars of Subsidiaries

Particulars of the Company's subsidiaries as at 31 March 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Issued and fully paid ordinary share	Percentage of issued share capital held by the Company*/ subsidiaries %	Percentage of issued share capital attributable to the Group %	Principal activities
Allied National Ltd.	British Virgin Islands/ Hong Kong	US$1 share	100*	100	Investment holding
Australian Service Cold Storage (N.S.W.) Pty Ltd.	Australia	A$2,500,002 shares	100	100	Dormant
iPowerB2B.com Limited	Hong Kong	HK$2 shares	100	100	Investment holding
iPower Holdings Limited	British Virgin Islands/ Hong Kong	US$45,000 shares	100*	100	Investment holding
iPower Warehousing Management System Limited	British Virgin Islands/ Hong Kong	US$1 shares	100	100	Warehousing management system holding
Pentagon Profits Limited	British Virgin Islands/PRC	US$1 share	100*	100	Dormant
Seapower China Investments Limited	Hong Kong/PRC	HK$2 shares	100	100	Logistics management services
Seapower Developments (Indonesia) Limited	British Virgin Islands/ Indonesia	US$1 share	100*	100	Dormant
Seapower Resources Australia Pty Ltd.	Australia	A$7,00,002 shares	100	100	Investment holding
Seapower Resources Investments Pty Ltd.	Australia	A$2,000,002 shares	100	100	Investment holding
Seapower Resources Gosford Pty Ltd.	Australia	A$4,200,002 shares	100	100	Cold storage warehousing
Seapower Secretaries Limited	Hong Kong	HK$100 shares	100*	100	Provision secretarial services
Topcrown Investments Limited	Hong Kong	HK$10,000 shares	100*	100	Management services
Triumph Kind Investment Limited	Hong Kong	HK$1 share	100	100	Investment in property
Wide Forest Limited	Hong Kong	HK$1 share	100	100	Investment holding
Seapower Investment (China) Limited	Hong Kong	HK$10,000 shares	100	100	Investment holding

35. Post Balance Sheet Events

(a) On 10 April 2006, Wild Forest Limited, a wholly-owned subsidiary of the Company, entered into an acquisition agreement with, among others, an independent third party, Mr. Danny Chan, to acquire 51% equity interest in Jaling Forest Industries Inc, at a consideration of HK$154 million ("Acquisition Agreement"). On 10 April 2006, the Company entered into a service agreement with Mr. Danny Chan to retain Mr. Danny Chan as managing director of Jaling Forest Industries Inc. at the monthly salary of US$12,000 per month commencing from the completion of the Acquisition Agreement. Details of which are set out in the Company's announcement dated 20 April 2006.

(b) On 16 May 2006, the Company and Total Gain Investment Limited ("Total Gain") entered into a Subscription Agreement under which the Company agreed to issue and allot 60,156,250 new shares at HK$0.128 per shares as a full settlement of the consultancy fee regarding service rendered inconnection with investment project as mentioned in note 35(a) above.

(c) On 16 May 2006, the Company and an independent third party, Mr. Danny Chan ("the Grantor"), entered into an option agreement, pursuant to which, the Company has been granted an option, exercisable by the Company at anytime during a period of five years from the completion of the Acquisition Agreement, to purchase from the Grantor 2,550 ordinary shares of Garner Forest Industries Inc ("Garner"), representing 51% of the issued share capital of Garner, at a total consideration of HK$60,000,000. The consideration payable by the Company for the grant of option under the option agreement is HK$1.00. Details of which are set out in the Company's announcement dated 17 May 2006.

(d) On 14 July 2006, the Company entered into a subscription agreement to issue a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million. Each warrant will carry the right to subscribe for one share at the initial subscription price of HK$0.09 per subscription share with exercise period of 3 years from the date of issue.

(e) Subsequent to the balance sheet date and on 9 June 2006, the Company granted share options to the directors and employees of the Group to subscribe for share of the Company as follows:

	No. of shares
Mr. Fung Tsum Pong	6,662,449
Mr. Tsang Dam Ching, David	66,624,499
Two employees	55,000,000
	128,286,948

The subscription price for the shares of the Company shall be HK$0.078 per share (subject to adjustment) and the option will expire on 8 June 2009. The option shall vest and become exercisable to the extent as provided by the Share Option Scheme of the Company and the operational rules made thereunder as effective from time to time.

36. Comparative Figures

With a review of financial statements' presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified to conform with the current year's presentation.

3. MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE GROUP

The following is the management discussion analysis extracted from the annual report of the Company for the year ended 31 March 2004, 2005 and 2006.

Business review for the year ended 31 March 2004

After the completion of the Company's restructuring on 5 December 2003, the Group concentrate resources on their core businesses of cold storage warehousing and logistics management services and explore into other business opportunities.

For the year ended 31 March 2004, the Group recorded a consolidated turnover of approximately HK$10.0 million. The net profit for the year was approximately HK$1,299.0 million. The operating loss was approximately HK$8.4 million for the year, compared with approximately HK$4.9 million for the year ended 31 March 2003.

Indebtedness of the Company's creditors was discharged in full, pursuant to the schemes of arrangement under debt restructuring, at a consideration of making distribution to the scheme creditors on the pro-rata basis which comprised a cash payment of HK$38 million, any cash held by the Company on the date of completion for the Company's restructuring and issuance of 96 million new shares of the Company. There was a net gain on restructuring of approximately HK$632.7 million for the financial year under review as a result of the written back of the Company's un-settled indebtedness waived by scheme creditors upon the date of completion for the Company's restructuring. On the date of completion for the Company's restructuring, the Company disposed of certain subsidiaries to an independent third party resulting in a gain on de-consolidation of these subsidiaries of approximately HK$706.1 million.

Financial position

The Group's cash and bank balances approximated HK$6.1 million as at 31 March 2004 (2003: HK$8.3 million). Out of the total borrowings of approximately HK$10.7 million as at the balance sheet date, bank and other borrowings accounted for approximately HK$5.7 million (2003: HK$515.6 million) and approximately HK$0.7 million of which were repayable within 1 year, HK$2.4 million would be repayable over 1 year but not exceeding 5 years and the remaining would be repayable over 5 years. The remaining balance of HK$5.0 million represented the convertible note ("Convertible Note") which will be expired on 31 December 2004 (2003: nil). The Convertible Note was issued to an independent third party for HK$5.0 million on 10 February 2004 which if fully exercised will result in the issuance of 500,000,000 new shares of the Company. The gearing ratio of the Group measured as total debts to total asset was 80% as at 31 March 2004.

Approximately 53% of the total borrowings was in Australian dollars. The Board considered foreign exchange risk being minimal. Bank borrowing was subject to floating interest rate. While the Convertible Note was interest free. The Group did not use financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Segment information

Segment information is presented by way of two segment formats: (i) on primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's business segments were classified as follows:

(a) cold storage warehousing and logistics management segment; and

(b) the property investment segment.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the assets. There were no intersegment sales and transfers during the year.

Employees

The Group had approximately 20 employees in Hong Kong, the PRC and Australia as at 31 March 2004. 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.

The emoluments payable to the Company's directors are determined based on the scope of work, level of involvement, experience and seniority.

Share Option Scheme

No share option has been exercised, cancelled or lapsed during the year ended 31 March 2004 or outstanding as at 31 March 2004 pursuant to the share option scheme adopted on 30 September 1999.

Contingent liabilities

The Company's guarantees given to financial institutions in respect of credit facilities utilised by its subsidiaries amounting to approximately HK$5.7 million.

During the year, the Company received a Writ of Summons issued by the Former Investors against the Company claiming for breach of the Former Restructuring Agreement made between the Former Investors and the Company to implement a restructuring proposal for the Company whereby the Former Investors asked for damages and losses suffered in the sum of approximately HK$47.7 million. However the claim was struck out by an order of the High Court of Hong Kong on 21 May 2004 as referred to in the Company's announcement dated 7 June 2004. The Company was informed by its lawyer on 5 June 2004 that the appeal period has expired but no appeal has been lodged by the Former Investors.

At 31 March 2004, the Company has contingent liabilities in respect of litigation commenced by a scheme creditor. In previous year, the scheme creditor submitted a notice of claim to the former Provisional Liquidators of the Company who considered that the scheme creditor was unable to provide sufficient evidence to demonstrate that it had suffered any loss or damage as a result of any action taken by the Company. Its claim had therefore been rejected. The scheme creditor subsequently during the year commenced a litigation in the California Court of the United States of America for compensatory damages and punitive damages in total for approximately US$4.2 million. The Directors of the Company, after having consulted the legal counsel, believe the Company has a motion to dispose of the case and therefore had made no provision in the consolidated income statement for the year ended 31 March 2004.

Charge on assets

As at 31 March 2004, the following assets of the Group have been pledged to secure credit facilities granted to and utilised by the Group:

	2004
	HK$'000
Property, plant and equipment	19,335
Other receivables	—
Bank deposits	—
	19,335

Business review fo the year ended 31 March 2005

For year ended 31 March 2005, the Company has principally engaged in the operation of its core business of cold storage warehousing and logistics management service.

The business of the Group experienced a mild slow-down mainly because certain multi-national customers cut down their external warehousing requirement by developing or upgrading their own storage facilities. As a way out, the Group has been sourcing import traders which have increasing demand on storage space and actively seeking new business opportunities through strategic alliance with potential business partners.

Financial position

For the year ended 31 March 2005, the Group recorded a consolidated turnover of approximately HK$8.52 million representing a decrease of approximately 14.76% over that of the previous year. The direct operating expenses of the year was approximately HK$6.6 million representing a decrease of 22% which was greatly contributed to more effective cost management of the Group. The loss after taxes and minority interest attributable to shareholders for the year was approximately HK$7.81 million. The operating loss was approximately HK$7.52 million for the year representing an improvement of 10% over previous year. The net asset of the Group for the year was approximately HK$20 million representing an increase of 50%.

Current assets amount to HK$9.2 million which consists of cash and bank balances of HK$6.8 million. Current liabilities amounted to HK$4.2 million, the reduction was mainly due to the HK$5 million convertible note converted during the year. The gearing ratio of the Group, measured as total debts to total assets was 30%.

All of the bank borrowings was in Australian dollars. The Board considered foreign exchange risk being minimal. Bank borrowing was subject to floating interest rate. The Group did not use financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

In January 2005, the Company entered into a legally non-binding strategic cooperation memorandum of understanding with Guangdong Guangye Assets Management Company Limited ("Guangye") expressing the strong intention on the part of both the Company and Guangye to cooperate in the development of business involving clean energy project(s). The signing of the said memorandum of understanding could be a milestone in the Group's future business development.

The continuing strong growth of the PRC economy has been accompanied by domestic increase in demand for energy supply in recent years. With growing consciousness of environmental protection and more stringent environmental legislation and regulation, it is foreseen that clean energy supply will constitute a more substantial proportion of energy supplied and consumed in China. The Group believes that strong alliance with Guangye will enable the Group to capture extensive business opportunities in the PRC in particular in the area of clean energy projects. Recently, the Company has been actively engaged in negotiation with third parties for the acquisition of certain clean energy business recommended by Guangye.

The Group will continue to devote its efforts to consolidating existing resources, so as to enhance its control capabilities for the operational management and to capture new business opportunities. At the same time, the Group will continue to maintain its existing cold storage warehousing and logistics management services and to further expand such services whenever business opportunities that will benefit the Group arise.

Segment information

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

Employees

The Group had approximately 11 employees in Hong Kong, the PRC and Australia as at 31 March 2005. For the year ended 31 March 2005, certain directors of the Company including executive and independent non-executive directors, such as Fung Tsun Pong, Tsang Kam Ching David, Zhao Ming, Liu Ka Lim, Yip Tak On and Wang Ji Cheng, have waived their remuneration. 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 adopted on 30 September 1999 was terminated and replaced a new Share Option Scheme on the 16 July 2004. The new Share Option Scheme shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

On the 10 August 2004, the Listing Committee of The Stock Exchange of Hong Kong Limited granting approval of the listing of, and permission to deal in, any shares of the Company which may fall to be issued pursuant to the exercise of the options to be granted under the new Share Option Scheme.

No share option has been granted, exercised, cancelled or lapsed under the new Share Option Scheme during the year ended 31 March 2005 or outstanding as at 31 March 2005.

Contingent liabilities

As at 31 March 2005, the Company has given a guarantee to a financial institution in respect of credit facilities utilised by one of its subsidiaries to the extent of approximately HK$5 million.

Charges an assets

As at 31 March 2005, the Group's property, plant and equipment amounted to HK$18,351,000 have been pledged to secure credit facilities granted to and utilised by the Group.

Related Party Transaction

For the year ended 31 March 2005, HK$120,000 were paid to Integration Project Solutions Limited, a company in which the Company's director, Mr. Chan Chun Hing, Kenneth was a common director and beneficial owner, as management fees for its consultancy services provided to the Company during the year.

Business Review for the year ended 31 March 2006

For year ended 31 March 2006, the Company has been principally engaged in the operation of its core business of cold storage warehousing and logistics management service.

The business of the Group experienced a scaled-down as certain major customers continued cutting their demand for external warehousing services by developing or upgrading their own storage facilities. To address these changes, the Group has been sourcing import traders which have increasing demand for storage space and actively seizing new business opportunities to expand its scope of business and diversify its revenue bases.

Financial position

For the year ended 31 March 2006, the Group recorded a consolidated turnover of approximately HK$4.13 million (2005: HK$8.52 million) representing a decrease of approximately 52% over that of the previous year which was mainly due to continuous decease in demand for its warehousing services. The direct operating expenses of the year amounted to approximately HK$3.96 million (2005: HK$6.62 million) representing a decrease of 40% which is in line with the reduction in turnover for the year. The operating loss was approximately HK$13.17 million for the year (2005: HK$7.52 million) representing an increase of 75% and the loss after taxes attributable to the equity holders of the Company for the year was approximately HK$13.58 million (2005: HK$7.81 million) representing an increase of 74%, both of which were resulted from various expenses incurred in the course of acquisitions of new businesses entities.

The net asset of the Group for the year was approximately HK$60.42 million (2005: HK$20.07 million) which was almost treble that of last year and was primarily contributed by the value of a real estate acquired in Shenzhen and various funds raised by issue of new shares for potential acquisitions. Liquidity of the group for the year was largely improved with current assets amount to approximately HK$34.60 million (2005: HK$9.22 million) which consists of cash and bank balances of approximately HK$16.97 million (2005: HK$6.82 million) and time deposit of approximately HK$15 million (2005: Nil).

Current liabilities as at 31 March 2006 amounted to approximately HK$3.36 million (2005: HK$4.22 million), the reduction was mainly due to decease in trade and other payables. The gearing ratio of the Group, measured as total debts to total assets, was 11% (2005: 30%).

The bank borrowings of the Group for the year amounted to approximately HK$4.08 million (2005: HK$5.04 million) of which approximately HK$3.52 million (2005: HK$4.43 million) will be due after one year. The bank borrowings were denominated in Australian dollars and subject to floating interest rate. The Board considered foreign exchange risk being minimal.

During the year, the Company has given a guarantee to a financial institution in respect of credit facilities utilised by one of its subsidiaries to the extent of approximately HK$5.3 million (2005: HK$5.0 million). As at 31 March 2006, the Group's cold storage warehouse, plant and equipment amounted to approximately HK$24.08 million (2005: HK$18.35 million) were pledged to secure credit facilities granted to and utilised by the Group.

The Group did not use financial instruments for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Throughout the fiscal year, the Company set its priorities to ensure that resources and efforts were more effectively allocated in searching potential strategic partners in the energy industry and natural resources market. The Company, through its wholly-owned subsidiaries, entered into various acquisitions which were briefly outlined as below.

In August 2005, the Company acquired a real estate in Shenzhen for setting up the head office of the Group in the PRC as well as for investment purpose.

On 7 January 2006, the Company entered into a capital injection agreement to acquire a 51% equity interest of 河南阜源石油化工有限公司(Henan Fu Yuan Petroleum and Chemical Engineering Company Limited) ("Fuyuan") for a consideration of approximately HK$26.5 million. Fuyuan is a private company incorporated in the PRC engaging in wholesale and retail of oil and gas products including gasoline, petroleum, diesel oil and lubricating oil. A total of approximately HK$24.8 million net proceed was raised by issue of new shares for the purpose of funding the acquisition. The acquisition constitutes a very substantial acquisition to the Company under the Listing Rules and was approved by the shareholders of the Company on 12 June 2006 pending completion which is subject to various conditions.

In addition, on 10 April 2006, the Company and Wide Forest Limited, its wholly-owned subsidiary, entered into an acquisition agreement to acquire a 51% equity interest of Jaling Forest Industries Inc. ("Jaling"), a private company incorporated in Guyana, South America, for a consideration of HK$154 million. Jaling is principally engaged in logging and forest exploitation, operation and management. The Company intends to finance the acquisition by issue of new shares to the vendor as well as by way of internal resources and debt or equity financing. Details of the said acquisition have been disclosed by an announcement of the Company dated 20 April 2006. The acquisition constitutes a very substantial acquisition to the Company under the Listing Rules and will be subject to, and conditional on, among others, the approval of the shareholders of the Company.

The Company also entered into an option agreement on 16 May 2006, pursuant to which the Company has been granted an option to purchase, within 5 years, a 51% shareholding of another forestry company engaging in logging and forest exploitation, operation and management in Guyana, at a total price of HK$60 million. Details of the said option agreement have been disclosed by an announcement of the Company dated 17 May 2006. It is the intention of the Company to exercise the said option to further expand its timber production capacity if the acquisition of Jaling is proven to be profitable.

The aforesaid acquisitions, that the Company recently entered into, are intended to advance the business of the Company in the energy industry and natural resources market. With a clear focus on such sectors, the directors of the Company believe that the Company will be able to strengthen and expand the Group's earning base and asset quality.

Segment information

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

Employees

The Group had approximately 12 employees in Hong Kong, the PRC and Australia as at 31 March 2006. For the year ended 31 March 2006, certain directors of the Company including executive and independent non-executive directors, such as Zhao Ming, Chan Chun Hing Kenneth and Jing Baoli have waived their remuneration. The Group implements remuneration policy, bonus and share options schemes to ensure that pay scales of its employees are rewarded on a performance-related basis within the general framework of the Group's remuneration strategy.

The emoluments payable to the Company's directors are determined based on the scope of work, level of involvement, experience and seniority.

Share Options Scheme

The Share Option Scheme of the Company was adopted on 16 July 2004 and shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

No share option has been granted, exercised, cancelled or lapsed under the new Share Option Scheme during the year ended 31 March 2006 or outstanding as at 31 March 2006.

Contingent liabilities

The Company has executed guarantee for banking facilities granted to one of its subsidiaries. The utilised amount of such facilities covered by the Company's guarantee which also represented the financial exposure of the Group as at 31 March 2006 amounted to approximately HK$5,300,000 (2005: HK$5,700,000). As at 31 March 2006, the borrowings outstanding against the facilities amounted to HK$4,000,000 (2005: HK$5,000,000).

Capital Commitment

	2006	2005
	HK$'000	*HK$'000*
Contracted but not provided for	26,500	—

This represents capital commitment for the capital contribution for 51 % equity interest in the enlarged paid-up capital of Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

Charges on assets

At 31 March 2006, cold storage warehouse and plant and equipment with an aggregate net book value of HK$24,075,000 (2005: HK$18,351,000) were pledged as security for bank loan facilities granted to the Group.

4. STATEMENT OF INDEBTEDNESS

At the close of business on 30 June 2006 (being the latest practicable date for the purpose of this indebtedness statement prior to printing of this circular), the Enlarged Group had outstanding borrowing of approximately HK$6,372,000.

At 30 June 2006, there is an outstanding capital commitment to contribute approximately HK$26.5 million for 51% equity interest in the enlarged paid-up capital of the Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司).

Save as set out in the preceding paragraph and apart from intra-group liabilities and normal trade payables and bills payable, none of the companies of the Enlarged Group had outstanding as at the close of business of 30 June 2006 any mortgages, charges, debentures, loan capital, debt securities (whether issued and outstanding, and authorised or otherwise created but unissued), term loans and overdrafts, or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credits or other borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 June 2006.

The directors have confirmed that there have been no material changes in the indebtedness and/or contingent liabilities of the Enlarged Group since 30 June 2006.

5. SECURITY

As at 30 June 2006, banking facilities to the extent of approximately HK$4,881,000 of the Enlarged Group were secured by the fixed and floating charge over the assets and undertaking of a member of the Enlarged Group.

6. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources available to the Group, the credit facilities currently available to the Enlarged Group ((i) a loan facility of HK$30 million from an independent third party based on a loan agreement dated 2 May 2006 for a period of eighteen months commencing from 2 May 2006, and (ii) a further standby loan facility of HK$15 million from a finance company based on a loan agreement dated 15 June 2006 for a period of eighteen months commencing from 15 June 2006) and in the absence of unforeseen circumstances, the Enlarged Group has sufficient working capital for its present requirements and the requirement for the next twelve months from the date of this circular.

7. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2006 being the date to which the latest published audited financial statements of the Group have been made up.

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

The Directors
Seapower Resources International Limited
Room 3308, Office Tower
Convention Plaza
Wanchai
Hong Kong

1 September 2006

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to Jaling Forest Industries Inc. (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") for the period from 24 January 2002 (date of incorporation) to 31 March 2006 (the "Relevant Periods") for inclusion in the circular of Seapower Resources International Limited ("Seapower") dated 1 September 2006 (the "Circular") in connection with the proposed acquisition of 51% of the issued share capital of the Company by Seapower.

The Company was incorporated in Guyana under the Companies Act of Guyana 1991 with limited liability on 24 January 2002. The principal activities of the Company are felling and processing of timber for export and local market, which have been commenced subsequently in April 2006.

Particulars of the Company's subsidiary as at 31 December 2005 and 31 March 2006 are as follows:

Name	Place and date of incorporation	Issued capital	Proportion of issued capital held by the Company	Principal activities
W & J Forest Resources Development Limited ("W & J")	Hong Kong, 1 December 2005	HK$10,000	50%	Processing, sales and distribution of timber

The financial statements of the Company have been prepared in accordance with the accounting principles generally accepted in Guyana by the directors of the Company, for the period from 24 January 2002 (date of incorporation) to 31 December 2003 and for the two years ended 31 December 2004 and 2005, which were audited by PKF, Barcellos, Narine & Co, Chartered Accountants, and for the three months ended 31 March 2005 and 2006 (the "Guyana Accounts"). For the purpose of this report, we have performed an independent examination on the Guyana Accounts in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

W & J has been accounted for as a subsidiary of the Company as, in the opinion of the directors of the Company, the Company has dominant control over the majority of votes of board of directors of W & J and its operational and financial decision making. The financial statements of W & J for the each of the Relevant Periods have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA. No audited financial statements of W & J have been prepared by its directors as it has been remained dormant during the Relevant Periods and there were no significant transactions apart from those administrative expenses incurred since its incorporation on 1 December 2005 up to 31 March 2006. For the purpose of this report, we have carried out necessary procedures on the accounts of W & J for the period from 1 December 2005 (date of incorporation) to 31 December 2005 and the three months ended 31 March 2006 in accordance with the Hong Kong Standards on Auditing issued by the HKICPA.

For the purpose of this report, the directors of the Company have prepared consolidated financial statements of the Group and financial statements of the Company for the Relevant Periods (the "HKGAAP Accounts") in accordance with the HKFRSs issued by the HKICPA. We have carried out independent audit procedures on the HKGAAP Accounts for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the HKICPA.

We have examined the HKGAAP Accounts of the Group for the period from 24 January 2002 (date of incorporation) to 31 December 2003, each of the two years ended 31 December 2004 and 2005, and for the three months ended 31 March 2006 (the "Underlying Financial Statements") in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for the period from 24 January 2002 (date of incorporation) to 31 December 2003, each of the two years ended 31 December 2004 and 2005, and for the three months ended 31 March 2006, and the balance sheets of the Group and the Company as at 31 December 2003, 2004, 2005 and at 31 March 2006 together with the notes thereon (the "Financial Information") set out in this report have been prepared from the Underlying Financial Statements.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of Seapower are responsible for the contents of the Circular in which this report forms part. It is our responsibility to compile the Financial Information set out from the Underlying Financial Statements, to form an opinion on the Financial Information based on our examination, and to report our opinion to you.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis as set out in Note 2 to the Financial Information, gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2003, 2004, 2005 and 31 March 2006, and of the results and cash flows of the Group for the period from 24 January 2002 (date of incorporation) to 31 December 2003, each of the two years ended 31 December 2004 and 2005 and the three months ended 31 March 2006.

The comparative consolidated financial statements of the Group for the three months ended 31 March 2005 have been extracted from the Group's consolidated financial information for the same period which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the consolidated financial information for the three months ended 31 March 2005 in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. Our review consisted principally of making enquiries of group management and applying analytical procedures to the consolidated financial information for the three months ended 31 March 2005 and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test 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 consolidated financial information for the three months ended 31 March 2005. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the consolidated financial information for the three months ended 31 March 2005.

CONSOLIDATED INCOME STATEMENTS

	For the 23 months ended 31 December	For the year ended 31 December		For the 3 months ended 31 March	
	2003	2004	2005	2005	2006
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	—	—	—	—	—
Administrative expenses	(10)	(438)	(460)	(128)	(182)
Loss for the period/year	(10)	(438)	(460)	(128)	(182)
Attributable to:					
Equity holders of the Company	(10)	(438)	(460)	(128)	(179)
Minority interest	—	—	—	—	(3)
	(10)	(438)	(460)	(128)	(182)

BALANCE SHEETS

Group

		As at 31 December			As at 31 March	
		2003	**2004**	**2005**	**2005**	**2006**
					(Unaudited)	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Non-current assets						
Forest concession right	*9*	1,394	1,392	9,000	9,000	9,000
		1,394	1,392	9,000	9,000	9,000
Current assets						
Cash at bank		—	—	10	—	4
		—	—	10	—	4
LIABILITIES						
Current liabilities						
Acreage fees payable	*10*	—	—	360	360	360
Amount due to a director	*11*	1,382	1,818	1,296	1,950	1,487
		1,382	1,818	1,656	2,310	1,847
Net current liabilities		1,382	1,818	1,646	2,310	1,843
Total assets less current liabilities		12	(426)	7,354	6,690	7,157
Non-current liabilities						
Acreage fees payable	*10*	—	—	7,329	7,329	7,309
		—	—	7,329	7,329	7,309
ASSETS LESS LIABILITIES		12	(426)	25	(639)	(152)
CAPITAL AND RESERVES						
Share capital	*12*	22	22	22	22	22
Reserves		(10)	(448)	(2)	(661)	(176)
Equity attributable to equity holders of the Company		12	(426)	20	(639)	(154)
Minority interest		—	—	5	—	2
TOTAL EQUITY		12	(426)	25	(639)	(152)

BALANCE SHEETS

The Company

		As at 31 December			As at 31 March	
		2003	2004	2005	2005	2006
					(Unaudited)	
	Note	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS						
Non-current assets						
Interest in a subsidiary	*8*	—	—	5	—	5
Forest concession right	*9*	1,394	1,392	9,000	9,000	9,000
		1,394	1,392	9,005	9,000	9,005
LIABILITIES						
Current liabilities						
Acreage fees payable	*10*	—	—	360	360	360
Amount due to a director	*11*	1,382	1,818	1,296	1,950	1,487
		1,382	1,818	1,656	2,310	1,847
Total assets less current liabilities		12	(426)	7,349	6,690	7,158
Non-current liabilities						
Acreage fees payable	*10*	—	—	7,329	7,329	7,309
		—	—	7,329	7,329	7,309
ASSETS LESS LIABILITIES		12	(426)	20	(639)	(151)
CAPITAL AND RESERVES						
Share capital	*12*	22	22	22	22	22
Reserves		(10)	(448)	(2)	(661)	(173)
TOTAL EQUITY		12	(426)	20	(639)	(151)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company						
	Share Capital	Capital Reserves	Translation Reserves	Accumulated Losses	Total	Minority Interests	Total Equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Issue of shares upon incorporation on 24 January 2002	22	—	—	—	22	—	22
Loss for the period	—	—	—	(10)	(10)	—	(10)
At 31 December 2003	22	—	—	(10)	12	—	12
Loss for the year	—	—	—	(438)	(438)	—	(438)
At 31 December 2004	22	—	—	(448)	(426)	—	(426)
Loss for the year	—	—	—	(460)	(460)	—	(460)
Exchange difference	—	—	(2)	—	(2)	—	(2)
Waiver of amount due to a director	—	908	—	—	908	—	908
Capital contribution by minority shareholders	—	—	—	—	—	5	5
At 31 December 2005	22	908	(2)	(908)	20	5	25
Loss for the period	—	—	—	(179)	(179)	(3)	(182)
Exchange difference	—	—	5	—	5	—	5
At 31 March 2006	22	908	3	(1,087)	(154)	2	(152)

CONSOLIDATED CASH FLOW STATEMENTS

	For the 23 months ended 31 December	For the year ended 31 December		For the 3 months ended 31 March	
	2003	2004	2005	2005	2006
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
Loss for the year/period	(10)	(438)	(460)	(128)	(182)
Net cash used in operating activities	(10)	(438)	(460)	(128)	(182)
FINANCING ACTIVITIES					
Increase in amount due to a director	10	438	460	128	179
Capital contribution by minority shareholder	—	—	5	—	—
Cash generated from financing activities	10	438	465	128	179
Net increase/(decrease) in cash and cash equivalents	—	—	5	—	(3)
Cash and cash equivalents at beginning of the year/period	—	—	—	—	10
Exchange difference	—	—	5		(3)
Cash and cash equivalents at end of the year/period	—	—	10	—	4

NOTES TO THE FINANCIAL INFORMATION

1. General and basis of preparation

(a) The Company is incorporated in Guyana with limited liability. The address of the registered office of the Company is at 34 Dennis Street, Lamaha Gardens, Georgetown, Guyana, South America. The principal activities of the Company are the felling and processing of timber for export and local market.

(b) On 22 August 2003 the Company was granted a State Forest Exploratory Permit (1/2003) by the Commissioner of Forests, Guyana Forestry Commission, to carry out exploratory work on an area of 167,000 hectares (approximately 412,000 acres) for a period of 3 years. Pursuant to the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005, the Company was granted with an exclusive timber concession right by the Commissioner of Guyana Forestry Commission for a period of 25 years, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) to occupy, cut and remove timber from an area of approximately 136,900 hectares (approximately 338,000 acres) in the State Forest of Guyana, South America ("the Forest"), which include a block located on the left bank of Whana River, Guyana — Venezuela border, right bank of Whannamaparu River and left bank of Barima River and another block located on the left bank of Sebai River, right bank of Waiumu River and right bank of India River ("Forest Concession Right"). Under these exploratory permit and concession right, the Company shall pay a total acreage fee of approximately HK$9,000,000 charged on all forestry area as prescribed by the Forest Act and Regulations of Guyana. In addition, based on a letter dated 23 November 2004 issued by the Commissioner of Forests, Guyana Forestry Commission, Guyana Forestry Commission has committed in principle to find an additional area in the proximity of the current concession which would compensate more or less to the area that was exercised and bring the total concession acreage as close as possible to the original 167,000 hectares (approximately 412,000 acres) at terms same as the Forest Concession Right. Based on a letter from Guyana Forestry Commission dated 19 January 2006, the Guyana Forestry Commission has approved to grant two more additional areas at Baramita and Sebai reservations to the Company, however, the relevant concession right has not yet been issued to the Company as at 31 March 2006 and up to date of this report. The Company has completed the necessary exploratory studies to obtain the Forest Concession Right during the Relevant Periods.

(c) On 22 December 2004, the Company entered into an agreement ("JV Agreement") with certain independent third parties ("PRC JV Partners") under which W & J Forest Resources Development Limited ("W & J") was established on 1 December 2005. The Company owns 50% of the issued capital of W & J. The majority of the board of directors of W & J is under control by the Company. In the opinion of the directors of the Company, W & J is regarded as a subsidiary. Pursuant to the JV Agreement, W & J is responsible for processing, sales and distribution of the timber logged under the Forest Concession Right through its processing and distribution network in the PRC. Under the JV Agreement, the Company has granted W & J an exclusive right to harvest 200,000 cubic meters of timber per year for a period of 10 years and W & J shall pay the Company US$20 (approximately HK$156) per cubic meter, totaling US$4 million (equivalent to approximately HK$31 million), as annual royalties. Under the JV Agreement, net profit generated from the sale of timber (after deduction of all harvesting costs payable to an independent third party contractor Wuchang State-owned Forestry Company ("Wuchang"), as detailed below, and other operating expenses) of W & J shall be distributed to the Company and the PRC JV Partners according to their respective shareholding in W & J.

W & J, on behalf of the Company, has engaged Wuchang, as an independent contractor, at a fixed logging fee of US$44 (equivalent to approximately HK$342) per cubic meter of timber logged. Under the JV Agreement, W & J shall also pay the Company US$31 (equivalent to approximately HK$241) per cubic meter of timber logged for its provision of domestic transportation, loading and custom clearance services.

(d) The commercial exploitation of the Forest Concession Right, logging business, timber harvesting activities, felling and processing of lumber have been subsequently commenced in April 2006.

(e) The Financial Information is presented in thousand of Hong Kong dollars unless otherwise stated.

(f) Going concern basis

The directors of the Company have considered with due care of the current financial position of the Group and prepared the financial statements of the Group on a going concern basis that the Group will be able to generate sufficient working capital to carry on its business in the foreseeable future, taking into account of the detailed assessment of the cash flow forecasts of the Group in light of the commercial exploitation of the Forest commencing from April 2006.

2. Basis of presentation

Since 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations ("Int") (hereinafter collectively referred to as the "new HKFRSs") which are effective for the accounting periods beginning on or after 1 January 2005. For the purposes of preparing and presenting Financial Information of the Relevant Periods, the Group has early adopted all these new HKFRSs. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Tax
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Properties
HKAS-Int 15	Operating Leases-Incentives
HKAS-Int 21	Income Taxes Recovery of Revalued Non-depreciable Assets
HKFRS 2	Share-based Payments
HKFRS 3	Business Combination
HKFRS 4	Insurance Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources

The HKICPA has issued the following standards and interpretations that are not yet effective. The Group has considered the following standards and interpretations but does not expect they will have a material effect on how the results of the operations and financial position of the Group are prepared and presented.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures (effective from 1 January 2006)
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates-Net Investment in a foreign Operation (effective from 1 January 2006)
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006)
HKAS 39 (Amendment)	The Fair Value Option (effective from 1 January 2006)
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures (effective from 1 January 2006)
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC) Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic component

3. Significant accounting policies

The Financial Information have been prepared under the historical cost convention and in accordance with the HKFRSs issued by the HKICPA. The Financial Information also complies with the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Stock Exchange") as applicable to accounting reports in the listing documents.

The preparation of Financial Information in accordance with the HKFRSs requires the management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the balance sheet dates and the reported amounts of revenues and expenses during the Relevant Periods. Actual results could differ from those estimates.

(a) Consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiary made up to each balance sheet date at 31 December, for the purpose of this report.

The results of the subsidiary acquired or disposed of during the period/year are included in the consolidated income statements from the effective date of acquisition or up to the effective date of disposal, where appropriate.

(b) Subsidiary

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

All significant inter-company transactions and balances within the group are eliminated on consolidation.

In the Company's balance sheet the investment in a subsidiary is stated at cost less provision for impairment losses. The results of the subsidiary are accounted by the company on the basis of dividend received and receivable.

(c) Revenue recognition

Sales of goods are recognized when the goods are delivered and title has passed.

Sale of services are recognized in the accounting period in which the services are rendered, by reference to completion of specific transaction assessed on the basis of actual service provided as a proportion of the total services to be provided.

Interest income is recognized on a time-proportion basis using the effective interest method.

Dividend income is recognized when the right to receive payment is received.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of the each of the Group's entities are measured using the currency of the primary economics environment in which the Group operates ("the functional currency"). The financial statements are presented in Hong Kong dollars, which is the Group's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of such translations and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Change in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in the income statement, and other changes in the carrying amount are recognized in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary items such as equity instruments held at fair value through profit or loss, are recognised in profit or loss as part of fair value gain or loss. Translation difference on non-monetary items such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of the Group entities that have a functional currency different from the presentation currency are translated into the presentation as follows:

(1) assets and liabilities for each balance sheet presented are translated at the closing rate at the balance sheet date;

(2) income and expenses for each income statement are translated at average exchange rate (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(3) all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of net investment in foreign entities, and of borrowings and other currency instruments designated as hedge of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognized in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Investments

The Group classified its financial assets in the following categories: other financial assets at fair value through profit or loss, loans and receivables, held-to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition and re-evaluated this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives were categorized as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either for trading or are expected to be realized within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as long-term receivables and account receivables in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial are non-derivatives that are either designed in this category or not classified in any of the other categories. They are included in non-current assets unless the management intends to dispose of the investment with 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

The fair values of quoted investment are based on current bid prices. For unlisted securities are determined by using valuation technique. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing model refined to reflect the issuer's specific circumstances.

The Group reassesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case equity securities classified as available-for-sale financial assets, the cumulative loss-measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement-is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortization, which at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identified cash flows (cash-generating units).

(g) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original teams of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(h) Cash and cash equivalents

Cash and cash equivalent include cash in hand, deposits held at call with banks and fixed deposits with maturity within 3 months or less.

(i) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(j) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue of disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost, any differences between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(k) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

(l) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligation may be small.

(m) Forest Concession Right

The Forest Concession Right in Guyana is stated at cost less amortisation.

The costs of Forest Concession Right includes the acreage fees payable to Guyana Forestry Commission, costs for necessary exploratory, geological, geophysical and other research studies incurred prior to obtaining the right.

The Forest Concession Right is amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation.

(n) Finance lease

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance lease. Finance leases are capitalized at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payments is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is recognized in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(o) Related party

For the purposes of these financial statements, parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant share holders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the group.

4. Financial risk management

The Group's activities expose it to a variety of financial risks: market risks (including currency risk, fair value, interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

(a) Market risks

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with an appropriate credit history

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the available of funding through an adequate amount of committed credit facilities and the ability to close our market positions. Due to the dynamic nature of the underlying business, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(b) Fair value estimation

The fair value of financial assets through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group used a variety of methods and made assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair values of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

5. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group made estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period.

In the process of applying the Group's accounting policies, which are set out in note 3 above, management has made the following critical judgments that have the most significant effect on the amounts recognised in the financial statements.

(a) Forest Concession Right

Forest Concession Right is amortised on a straight line basis over the shorter of the contractual period and its useful life estimated based on the total proven and probable reserves of the forestry exploitation volume. The management exercises their judgment in estimating the total proven and probable reserves of forestry exploitation volume.

(b) Income taxes

The Group is subject to income taxes in several jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that are initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

6. Directors' emoluments

None of the directors received any fees or emoluments in respect of their services rendered to the Company during the Relevant Periods.

7. Taxation

No provision for Hong Kong and overseas profit tax has been made as the Company has no assessable profit during the Relevant Periods.

No provision for deferred taxation has been recognised in the Financial Information.

8. Interest in a subsidiary

	The Company				
	As at 31 December			As at 31 March	
	2003	2004	2005	2005	2006
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	—	—	5	—	5

Particulars of the Company's subsidiary as at 31 December 2005 and 31 March 2006 are as follows:

Name	Place and date of incorporation	Issued capital	Proportion of issued capital held by the Company	Principal activities
W & J Forest Resources Development Limited ("W & J")	Hong Kong, 1 December 2005	HK$10,000	50%	Processing, sales and distribution of timber

In the opinion of the directors of the Company, W & J has been accounted for as a subsidiary as the Company has control over the majority of voting power of its board of directors and control over its operational and financial decision making.

9. Forest Concession Right

This represents the forestry research and studies costs incurred on the Forest and total acreage fees payable for the exclusive right to cut and remove timber from the Forest as detailed in note 1(b) above. As the commercial operation has been commenced only in April 2006, no amortisation has been required for the Relevant Periods in accordance with the accounting policy as described in note 3(m) above.

In the opinion of the directors of the Company, no impairment is required on the carrying value of the right at the balance sheet date.

10. Acreage fees payable

	The Group and the Company				
	As at 31 December			As at 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Acreage fees payable					
Within one year	—	—	360	360	360
More than one year	—	—	7,329	7,329	7,309
	—	—	7,689	7,689	7,669

The acreage fees are payable to Guyana Forestry Commission for the Forest Concession Right to the granted area of 136,900 hectares as referred to note 1(b) above.

11. Amount due to a director

The amount represented advances from a director, Mr. Danny Chan for acreage fees and administrative expenses. The amount of HK$908,000 due for the period from 24 January 2002 to 31 December 2005 was subsequently waived by Mr. Danny Chan on 31 December 2005. The carrying value approximates its fair value at 31 March 2006.

The balance is unsecured, interest-free and repayable on demand.

12. Share capital

	The Group and the Company				
	As at 31 December			As at 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Authorised, issued and fully paid:					
500,000 ordinary shares					
G$1 each	22	22	22	22	22

On 24 January 2002, 500,000 ordinary shares of G$1 each were issued at par to the subscribers to provide for the initial capital to the Company.

13. Expenses by nature

Expenses included in administrative expenses are analysed as follows:

	For the 23 months ended 31 December	For the year ended 31 December		For the 3 months ended 31 March	
	2003	**2004**	**2005**	**2005**	**2006**
				(Unaudited)	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Staff costs	—	—	—	—	126
Auditors' remuneration	—	—	—	—	4

14. Subsequent events

On 10 April 2006, Seapower and the Company entered into a Service Agreement with Mr. Danny Chan, a major shareholder and director of the Company, under which, upon completion of the proposed acquisition of 51% issued capital of the Company by Seapower, Mr. Danny Chan will be appointed as the managing director of the Company for an initial term of two years and a renewable further term of three years, at a monthly salary of US$12,000 per month.

On 20 May 2006, the parties to the Joint Venture Agreement entered into a supplemental agreement pursuant to which W & J (in which the Company held 50% equity interest) shall pay the Company US$31 (equivalent to approximately HK$241) per cubic meter of logged timber from the forest for its provision of domestic transportation, loading and custom clearance services.

15. Subsequent financial statements

No audited financial statements of the Company have been prepared in respect of any period subsequent to 31 March 2006.

Yours faithfully,

CCIF CPA Limited
Certified Public Accountants
Hong Kong

Choi Man On
Practising Certificate Number P02410

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The information set out below is for illustrative purpose only and does not form part of the accountant's report prepared by the reporting accountants of the Group, CCIF CPA Limited, as set out in Appendix II to this circular.

(a) The Target will be acquired by the Group upon Completion. Details of which are set out in section headed "Letter from the Board" in this circular. The acquisition of the Target will be accounted for under acquisition accounting in the financial statements of the Group in the coming financial statements prepared immediately after Completion.

To provide additional financial information, the unaudited pro forma financial information of the Enlarged Group as at 31 March 2006 have been prepared based on the audited consolidated financial statements of the Group for the year ended 31 March 2006 which have been extracted from Appendix I to this circular, and the financial statements of the Target Group for the year ended 31 December 2005, respectively, which have been prepared under new HKFRSs as extracted from Appendix II to this circular, after taking into account of the unaudited pro forma adjustments as described in the notes thereto, for illustrative purposes, to demonstrate the effect of the Acquisition on the unaudited pro forma consolidated income statement, unaudited pro forma consolidated balance sheet and unaudited pro forma consolidated cash flow statement as if the Acquisition had taken place on 1 April 2005, 31 March 2006 and 1 April 2005, respectively.

The unaudited pro forma financial information of the Enlarged Group presented below does not purport to present what the consolidated income statement, consolidated balance sheet and consolidated cash flow statement would actually have been if the Acquisition had been taken place on 1 April 2005, 31 March 2006 and 1 April 2005 respectively or to project the financial information for any future period and are included for illustrative purposes only.

The unaudited pro forma financial information should be read in conjunction with the historical financial information of the Group, the financial information of the Target and other information included elsewhere in this circular.

The unaudited pro forma financial information below has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 March 2006 and at any future date.

(i) Unaudited pro forma consolidated income statement of the Enlarged Group, prepared based on the audited consolidated income statement of the Group for the year ended 31 March 2006 and the Target Group for the year ended 31 December 2005 (translated into Hong Kong dollars at the exchange rate of G$24.5 = HK$1) as if the Acquisition was completed on 1 April 2005.

	Audited consolidated income statement of the Group for the year ended 31 March 2006	Audited consolidated income statement of the Target Group for the year ended 31 December 2005	Unaudited pro forma adjustments		Unaudited pro forma consolidated income statement of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Turnover	4,129	—	—		4,129
Cost of goods sold	(3,955)	—	—		(3,955)
Gross profit	174	—	—		174
Other revenue	128	—	—		128
Other income	2,187	—	—		2,187
Selling and administrative expenses	(15,660)	(460)	—		(16,120)
Loss from operations	(13,171)	(460)	—		(13,631)
Finance costs	(406)	—	—		(406)
Loss before taxation	(13,577)	(460)	—		(14,037)
Taxation	—	—	—		—
Net loss for the year	(13,577)	(460)	—		(14,037)
Attributable to:					
Equity holders of the Company	(13,577)	(460)	225	*(a)*	(13,812)
Minority interest	—	—	(225)	*(a)*	(225)
	(13,577)	(460)	—		(14,037)

Notes:

(a) This represents the share of the results for the year ended 31 December 2005 of the Target Group by its 49% minority shareholders, which is calculated as following:

	HK$'000
Loss of the Target Group for year ended 31 December 2005	(460)
Loss shared by minority interest (49% thereof)	(225)

(ii) Unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2006, prepared based on the audited consolidated financial statements of the Group as at 31 March 2006 and the Target Group as at 31 December 2005 (translated into Hong Kong dollars at the exchange rate of G$24.5 = HK$1), as if the transaction was completed on 31 March 2006.

	Audited consolidated balance sheet of the Group as at 31 March 2006	Audited consolidated balance sheet of the Target Group as at 31 December 2005	Unaudited pro forma adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
ASSETS					
Non-current assets					
Goodwill	—	—	153,334	*(b)*	153,334
Property, plant and equipment	29,311	—	—		29,311
Forest concession right	—	9,000	—		9,000
Prepaid lease payments	3,635	—	—		3,635
	32,946	9,000	153,334		195,280
Current assets					
Financial assets at fair value through profit and loss	1,683	—	—		1,683
Trade and other receivables	955	—	—		955
Time deposit	15,000	—	(15,000)	*(c)*	—
Cash and bank balances	16,966	10	(16,795)	*(c)*	181
	34,604	10	(31,795)		2,819
Total assets	67,550	9,010	121,539		198,099

	Audited consolidated balance sheet of the Group as at 31 March 2006	Audited consolidated balance sheet of the Target Group as at 31 December 2005	Unaudited pro forma adjustments		Unaudited pro forma consolidated balance sheet of the Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	66,023	22	8,962	*(c)*	75,007
Reserves	(5,606)	(2)	106,018	*(c)*	100,410
Equity attributable to equity holders of the Company	60,417	20	114,980		175,417
Minority interest	—	5	640	*(b)*	645
Total equity	60,417	25	115,620		176,062
Non— current liabilities					
Bank loan					
— due after one year	3,528	—	—		3,528
Acreage fees payable	—	7,329	—		7,329
Deferred tax liability	241	—	—		241
	3,769	7,329	—		11,098
Current liabilities					
Bank overdraft	171	—	—		171
Bank loan					
— due within one year	555	—	—		555
Other loans	—	—	7,205	*(c)*	7,205
Acreage fees payable	—	360	—		360
Trade and other payables	2,148	—	—		2,148
Amounts due to subsidiaries under liquidation	490	—	—		490
Amount due to a director	—	1,296	(1,296)	*(b) & (d)*	—
Amount due to related party	—	—	10	*(d)*	10
	3,364	1,656	5,919		10,939
Total liabilities	7,133	8,985	5,919		22,037
Total equity and liabilities	67,550	9,010	121,539		198,099
Net current assets/(liabilities)	31,240	(1,646)	(37,714)		(8,120)
Total assets less current liabilities	64,186	7,354	115,620		187,160

Notes:

(a) The financial information of both the Group and the Target Group has been prepared in accordance with accounting principles generally accepted in Hong Kong, which includes Hong Kong Financial Reporting Standards (HKFRSs).

(b) The Company will acquire 51% equity interest of the Target from one of its existing shareholders at the consideration of HK$154,000,000:

	HK$'000
Net assets of the Target Group at 31 December 2005, attributable to equity holders of the Target	20
Add: net indebtedness (calculated as amount due by the Target Group to a director less cash and bank balance) as at 31 December 2005 waived by that director	1,286
	1,306
Minority interest (HK$1,306,000 x 49%)	(640)
Net assets attributable to 51% equity interest in the Target to be acquired	666
Consideration payable by Seapower	154,000
Goodwill on acquisition as if completed on 31 December 2005	153,334

Goodwill is the difference between percentage share of net assets as if acquired on 31 December 2005 and consideration paid and payable by the Company, which is calculated in accordance with HKFRS 3 "Business Combinations" and will be carried at cost less any impairment losses which are subject to annual impairment assessment by the directors of the Company, in accordance with the Company's accounting policy as set out in Appendix I on page I-21.

(c) The consideration of HK$154,000,000 will be satisfied as to HK$39,000,000 in cash and HK$115,000,000 by issue of consideration shares of the Company at issuing price of not less than HK$0.128 per consideration share. If the consideration shares are issued at HK$0.128 per share, a total of 898,437,500 new shares will be issued, share premium of approximately HK$106,016,000 will be arose from the issue of consideration shares.

As at 31 March 2006, since the total available cash and cash equivalents of the Group was only HK$31,795,000, the shortage of cash consideration, amounting to approximately HK$7,205,000 will be financed from internal resources and funds raised by way of debt and equity financing. On 14 July 2006, the Company entered into subscription agreements with various subscribers pursuant to which the subscribers have agreed to subscribe for, and the Company has agreed to issue a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million. The Company will received an additional amount of HK$86.4 million upon full exercise of the subscription rights as attached to the warrants.

(d) Balance of amount due to a director of the Target not yet waived by that director is reclassified as amounts due to related party in the Enlarged Group's financial statements as that director is not a director of the holding company, Seapower Resources International Limited, of the Enlarged Group.

(iii) Unaudited pro forma consolidated cash flow statement of the Enlarged Group prepared based on the audited consolidated cash flow statements of the Group for the year ended 31 March 2006 and the Target Group for the year ended 31 December 2005 (translated into Hong Kong dollars at the rate of G$24.5 = HK$1) as if the transaction was completed on 1 April 2005.

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2006	**Audited consolidated cash flow statement of the Target Group for the year ended 31 December 2005**	**Unaudited pro forma adjustments**		**Unaudited pro forma consolidated cash flow statement of the Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Notes*	*HK$'000*
Operating activities					
Loss before taxation	(13,577)	(460)	—		(14,037)
Adjustments for:					
Depreciation	1,699	—	—		1,699
Unrealized loss on financial assets at fair value through profit or loss	9	—	—		9
Amortisation of prepaid lease payments	81	—	—		81
Net gain on disposals of property, plant and equipment	(20)	—	—		(20)
Interest income	(128)	—	—		(128)
Interest expenses	406	—	—		406
Operating cash outflow before changes in working capital	(11,530)	(460)	—		(11,990)
Decrease in trade and other receivables	1,446	—	—		1,446
Decrease in trade and other payables	(979)	—	—		(979)
Net cash used in operations	(11,063)	(460)	—		(11,523)
Interest received	128	—	—		128
Interest paid	(406)	—	—		(406)
Net cash used in operating activities	(11,341)	(460)	—		(11,801)

	Audited consolidated cash flow statement of the Group for the year ended 31 March 2006 *HK$'000*	Audited consolidated cash flow statement of the Target Group for the year ended 31 December 2005 *HK$'000*	Unaudited pro forma adjustments *HK$'000*	*Notes*	Unaudited pro forma consolidated cash flow statement of the Enlarged Group *HK$'000*
Investing activities					
Acquisition of subsidiaries	—	—	(6,820)	*(a)*	(6,820)
Lease payments for land use rights	(3,716)	—	—		(3,716)
Purchase of property, plant and equipment	(4,765)	—	—		(4,765)
Proceeds from disposal of property, plant and equipment	518	—	—		518
Purchase of financial assets at fair value through profit or loss	(1,692)	—	—		(1,692)
Net cash outflow from investing activities	(9,655)	—	(6,820)		(16,475)
Net cash outflow before financing activities	(20,996)	(460)	(6,820)		(21,456)
Financing activities					
Proceeds from issue of new ordinary shares	45,319	—	—		45,319
Capital contribution by minority shareholders	—	5	—		5
Advance from a related party	—	—	460	*(b)*	460
Advance from a director	—	460	(460)	*(b)*	—
Repayment of other loans	—	—	(24,975)	*(a)*	(24,975)
Repayment of bank loan	(955)	—	—		(955)
Net cash generated from/(used in) financing activities	44,364	465	(24,975)		19,854
Increase/(decrease) in cash and cash equivalents	23,368	5	(31,795)		(8,422)
Effect of foreign exchange rate changes	1,607	5	—		1,612
Cash and cash equivalents at beginning of year	6,820	—	—		6,820
Cash and cash equivalents at end of year	31,795	10	(31,795)		10
Analysis of the balances of cash and cash equivalents					
Cash and bank balances	16,966	10	(16,795)		181
Time deposit	15,000	—	(15,000)		—
Bank overdraft	(171)	—	—		(171)
	31,795	10	(31,795)		10

Notes:

(a) Analysis of net cash outflow from acquisition of the Target Group:

Fair value of net assets acquired as at 31 December 2004:

	HK$'000
Assets acquired:	
Forest concession right	1,392
Liabilities acquired	
Amount due to a director	(1,818)
Net liabilities of the Target Group at 31 December 2004 (as per Accountants' Report)	(426)
Add: Net indebtedness (calculated as amount due by the Target Group to a director, less any cash and bank balance) as at 31 December 2004 waived by that director	1,818
Adjusted net assets of the Target Group as if Acquisition was completed on 31 December 2004	1,392
Minority interest (HK$1,392,000 x 49%)	(682)
Goodwill on Acquisition as if completed on 31 December 2004	153,290
	154,000
Satisfied by:	
Cash consideration	6,820
Consideration shares issued	115,000
Other loans	32,180
Total consideration	154,000

The consideration of HK$154,000,000 will be satisfied as to HK$39,000,000 in cash and HK$115,000,000 by issue of consideration shares of the Company at issuing price of not less than HK$0.128 per consideration share. If the consideration shares are issued at HK$0.128 per share, a total of 898,437,500 new shares of HK$0.01 each will be issued and share premium of approximately HK$106,016,000 will be arose from the issue of consideration shares.

Upon acquisition of the Target Group, since the total available cash and cash equivalents of the Group as at 1 April 2005 was approximately HK$6,820,000, the shortage of the cash consideration (amounting to approximately HK$32,180,000) was assumed to be financed by other loans of the Group. During the year ended 31 March 2006, the directors have also assumed that approximately HK$24,975,000 of such other loans will be repaid from the funds generated by the Group during the year ended 31 March 2006. As a result, at 31 March 2006, the outstanding balance of such other loans amounted to approximately HK$7,205,000 as shown in the pro forma financial statements of the Enlarged Group. The directors expect that the remaining loan balance will be financed from the Group's internal resources and funds raised by way of debt and equity financing.

On 14 July 2006, the Company entered into subscription agreements with various subscribers pursuant to which the subscribers have agreed to subscribe for, and the Company has agreed to issue a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million. The Company will received an additional amount of HK$86.4 million upon full exercise of the subscription rights as attached to the warrants.

(b) Balance of amount due to a director of the Target not yet waived by that director is reclassified as amount due to related party in the Enlarged Group's financial statement as that director is not a director of the holding company, Seapower Resources International Limited, of the Enlarged Group.

CCIF

CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

The Directors
Seapower Resources International Limited
Room 3308, Office Tower
Convention Plaza
Wanchai
Hong Kong

1 September 2006

Dear Sirs,

We report on the unaudited pro forma financial information ("Unaudited Pro Forma Financial Information") of Seapower Resources International Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out in Appendix III of the Company's circular dated 1 Septemebr 2006 (the "Circular") in connection with the proposed acquisition of 51% interest in Jaling Forest Industries Inc., (the "Acquisition") , which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circular" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 (7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, consisting the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are disclosed pursuant to paragraph 4.29 (1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgements and assumptions of the directors, and because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 March 2006 or at any future date; and
- results and cash flows of the Group for the year ended 31 March 2006 or any future period.

OPINION

In our opinion:

(a) the Unaudited Pro Forma Financial Information has been properly compiled on the basis as stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29 of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certificated Public Accountants
Hong Kong

Choi Man On
Practising Certificate Number P02410

The following is the text of a summary valuation report, prepared for the purpose of incorporation in this circular received from LCH (Asia-Pacific) Surveyors Limited, an independent valuer, in connection with its valuation of the Forest.

利駿行測量師有限公司
LCH (Asia-Pacific) Surveyors Limited
CHARTERED SURVEYORS
PLANT AND MACHINERY VALUERS
BUSINESS & FINANCIAL SERVICES VALUERS

27th Floor
Li Dong Building
No.9 Li Yuen Street East
Central
Hong Kong

1 September 2006

The Directors
Seapower Resources International Limited
Room 3308, Office Tower
Convention Plaza
Wanchai
Hong Kong

Dear Sirs,

In accordance with the instructions given by the management of Seapower Resources International Limited (hereinafter referred to as the "Company") to us, we have investigated and conducted an agreed-upon procedures on-desk valuation on the market value of a designated agricultural property asset (hereinafter referred to as the "subject asset" and see Note) presented to us as owned by Jaling Forest Industries Inc. (hereinafter referred to as "Jaling") in various locations of Guyana in South America as at 30 June 2006 (hereinafter referred to as the "date of valuation") for the Company's internal management reference purpose. Our findings and conclusion in this valuation are documented in an appraisal report and submitted to the Company at today's date.

At the request of the management of the Company, we prepared this summary report to summarise our findings and conclusion as documented in the appraisal report for the purpose of inclusion in a public document at today's date. Terms herein used without definition shall have the same meanings as in the appraisal report, and the assumptions and caveats adopted in the appraisal report also apply to this report.

The readers are reminded that the appraisal report which this summary report follows has been prepared in accordance with the guidelines set by the International Valuation Standards, Seventh Edition, 2005 (the "IVS") published by the International Valuation Standards Committee and with reference to the Hong Kong Accounting Standard 41 Agriculture published by the Hong Kong Institute of Certified Public Accountants. The IVS entitles the valuer(s) to make assumptions which may on further investigation, for instance by the readers' legal representative, prove to be inaccurate. Any exception is clearly stated below. Headings are inserted for convenient reference only and have no effect in limiting or extending the language of the paragraphs to which they refer. The word *valuation* has the same meaning as *appraisal* in our reports.

Note: According to International Valuation Guidance Note No. 10 published by the International Valuation Standards Committee in the International Valuation Standards, Seventh Edition, 2005, agricultural property asset can be classified as land, structural improvement, plant and machinery (attached or not attached to the land) and biological asset (attached or not attached to the land). Biological asset is defined as a living animal or plant.

INTRODUCTION

On 10 April 2006, the Company via one of its wholly-owned subsidiaries entered into a sale and purchase agreement with a third party in relation to the acquisition of 51 per cent. equity interest of Jaling. The subject asset forms part of the assets owned by Jaling as at the date of valuation. Our instruction is, without conducting physical inspection of the subject asset, to conduct an agreed-upon procedures on-desk valuation on the market value of the subject asset for the Company's internal management reference. Based on the instruction, we have read the documents provided, made relevant enquiries and obtained such further information as we consider necessary to support our opinion of value of the subject asset as at the date of valuation.

According to the instruction given to us, the subject asset comprises the inventory of two standing forests, classified as State Forests by the government of Guyana, situated on two parcels of land known as Block A and Block B at Barima/Whana Area and Sebai Area, Port Kaituma, Barima-Waini of Guyana.

The term "Market Value" as used herein is defined as the price, expressed in terms of cash equivalents, at which an asset would change hands between a (hypothetical willing and able) buyer and a (hypothetical willing and able) seller, acting at arm's length (in an open and unrestricted market), when neither is under compulsion to buy or sell and when both have reasonable knowledge of the relevant facts. Under this definition, we further assumed that both the buyer and the seller contemplate the retention of the subject asset at its present location for the continuation of the current operations, and both seeking their maximum economic self-interest in arriving at an arm's-length transaction.

ECONOMIC OUTLOOK OF GUYANA *(see Note)*

Guyana (officially known as Co-operative Republic of Guyana) is situated at the Northern part of South America, bordering the North Atlantic Ocean, between Suriname and Venezuela. Guyana originally a Dutch colony and in 1815 became a United Kingdom ("U.K.") possession, and in 1966 Guyana achieved independence from the U.K. and within the Commonwealth hitherto. With a population of about 768,000, the country enjoys the nature resources of bauxite, gold, diamonds, hardwood timber, shrimp and fish.

The Guyanese economy is an emerging economy which recorded moderate economic growth based on expansion in the agricultural and mining sectors. The government is juggling a sizable external debt against the urgent need for expanded public investment. Guyana's entrance into the CARICOM Single Market and Economy in January 2006 might broaden the country's export market, primarily in the raw materials sector. From 1995 to 2004, Guyana's weighted average annual rate of inflation was 5.02 per cent. (or "%" as appeared in our reports).

The Executive Board of the International Monetary Fund ("IMF") currently commented the exchange rate of Guyana remained stable, the external current account position was better than anticipated, and the structural reform agenda moved ahead. The 2005 macroeconomic program was on track, seen in particular in a solid fiscal performance. It is the belief of the IMF that the 2006 program maintains the momentum of structural reforms.

Note: Sources of information from website of cia.gov, imf.org, goinvest.gov.gy, worldbank.org and heritage.org.

The GDP (Gross Domestic Product) growth of Guyana in 2000, 2003 and 2005 was negative and in 2004 recorded a growth of 1.5%.

FORESTRY INDUSTRY IN GUYANA *(see Note)*

Tropical timber is one of the most important resources in the world. This provides raw materials for construction, furniture, including derived products such as veneers, plywood and parquets. With the limited supply and sources of timber in the world market, there is an increased demand and pricing for round logs and its derived products in the market.

Tropical forests are considered one of the most productive ecosystems in the world. It is extinguished from other major forests having greatest volume of plants and species diversity per unit area. Today, tropical forests are threatened by human activities, thus needing more protection and Guyana has an extensive forest area making up 75% or 65,000 square miles out of its entire 83,000 square miles of its entire area. The exploitable permanent State-owned Forests are about 10, 000 square miles found in the lowland areas and are composed of the following main forest types which include Mixed, Liana, Morabukea, Swamp and Baromalli forest types.

Guyana has vast forest resources that contain over 1,000 different tree varieties. Currently, 120 species are being logged in various forms, with between 12 and 15 of these logged on a commercial scale through a system of concessions. The most sought after species include Greenheart (Colubrina arborescens or *Chlorocardium rodiei*), Mora (*Mora excelsa* and *Mora gonggrijpii*), Baromalli (*Catostemma altsonii*), Purpleheart (*Peltogyne spp*), Crabwood (*Carapa guianensis*), Kabakalli (*Goupia glabra*), and Wamara (*Bocoa prouacensis*). In 2005, Guyana exported over US$52 million in forest products, ranging from raw and sawn timber, to plywood, molding and furniture products. Plywood accounted for about 20 per cent. of all forestry exports, with higher-value products, such as furniture, representing a small, yet rapidly growing share (5 per cent.). Guyanese wood experts estimate that Guyana is capable of filling most of CARICOM's demand of 300 million board feet of tropical wood.

While Guyana is traditionally known for its export of timber in raw or semi-processed forms, the government and segments of the forest product industry have placed an emphasis on promoting value-added forest product production for export to the Caribbean, the United States of America ("U.S.") and Europe.

There are a number of governmental and private organisations involved in the forest products sector. The Guyana Forestry Commission ("GFC") is the government agency responsible for the administration and management of the 13.6 million hectares of land classified as State Forests (including the subject asset). The Forest Products Association ("FPA") represents private forest producers and has substantial practical knowledge of timber production and forest uses. The FPA collaborates with the GFC in selected training and research initiatives. This includes the Forest Training Centre Incorporated, which was established in collaboration with the Tropical Forest Foundation (from the U.S.) and Department for International Development (from the U.K.) to implement a Reduced Impact Logging program focusing on hands-on demonstration and training in an actual timber harvesting operation.

Note: Sources of information from goinvest.gov.gy and forestry.gov.gy

The Forestry Products Marketing Council of Guyana (the "Council") was recently established "to ensure the sustainability of Guyana's forest products industry by increasing value and improving its competitiveness through enhanced market access and increased trade opportunities". Functions include market intelligence, trade missions, developing industry and product information, and providing advice on export-related services such as product packaging and handling etc. The Council reports to the Ministry of Fisheries, Crops and Livestock of Guyana.

Approximately 52 per cent. of State Forests have been allocated to timber harvesting concessions. We are given to understand that, the industry uses world-class harvesting techniques to ensure the sustainability of Guyana's forest resources. Three types of concessions are awarded, based on area size and duration:

Timber Sales Agreement — granted up to twenty-five years for areas in excess of 24,000 hectares;

Wood-cutting Lease — granted for up to ten years for 8,000 — 24,000 hectares; and

State Forest Permission — granted for a two-year period on no more than 8,000 hectares.

A Code of Practice sets minimum operational standards requirements, and the GFC monitors harvesting practices, through a structured program of field visits.

In recent years, Guyana's wood products sector has experienced a renaissance, with significant investments towards the manufacturing and marketing of value-added and high-value niche products, as well as strides towards certification under the Forest Stewardship Council.

The forests of Guyana have very high species diversity. About 30 — 60 tree species may be found within one (1) hectare of forest, while a square kilometer can contain 100 — 200 different species or more. However, one or few species often dominate resulting in clearly identifiable forest types. These forest types are named by their dominant species.

Species diversity and composition of the forest mainly depend on the soil type and soil water status. Areas dominated by single specie can therefore be extensive, as in Baromalli, and Mora forests. The followings are the major forest types in Guyana:

1. **Mixed Forests** — The term "mixed forest" covers a variety of subtypes, and is mainly found on well drain soils without stagnating water even in the rainy season. The soils can be brown sands, laterite or loam. Among others the following subtypes can be identified within the mixed forest.

   - Baromalli Forest can be found on brown sand, as well as on laterite, often on flat and ridges. The canopy, reaches a height of 20-35 m (meters).

   - Morabukea Forest grows on laterite. Less frequently it is encountered on sandy loam or on brown sand. It occurs on undulating terrain with gentle slopes. Baromalli dominates the canopy layer that reaches a height of 20-35 m. Often Crabwood, Aromata, and Black Kakaralli are found in the Morabukea forest.

   - Liana Forest contains only scattered trees with commercial value. Woody climbers' bush-ropes and bamboos are abundant.

2. **Swamp Forest** — In the common forest type on wet sites, a mixture of Crabwood, Turu Palms, Manni and White Cedar is the dominant combination on these wet sites.

3. **Mora Forest** — Occurs on silt clay or loam along rivers and flats throughout the low land regions. The sites are inundated during rainy season. Mora is the dominant specie among other species, such as: Crabwood, Baromalli, Aromata, and Kakaralli.

DESCRIPTION OF JALING

Based on an announcement dated 20 April 2006 made by the Company, we understand that Jaling was a privately owned company incorporated in Guyana, South America with limited liability in January 2002. The company has an authorised share capital of G$500,000 (see Note) divided into 500,000 shares of G$1.00 each, all of which have been issued and are fully paid. The official address of Jaling is situated at 160 Happy Acres, East Coast Demerara, Guyana.

Jaling is principally engaged in logging and forest exploitation, operation and management. The primarily economic asset of the company is its holding of an exclusive timber concession right for a period of 25 years, commencing on 25 January 2005 and until 24 January 2030 (both dates inclusive) under the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 granted by the Commissioner of Forests, GFC to the subject asset. According to the agreement and information made available to us, a minimum royalty of US$28,596.74 or at a rate of US$0.12 per acre per annum, whichever is higher, is charged on all forested areas as amended by regulations made under the Forest Act of Guyana.

On 22 December 2004, Jaling entered into a joint venture agreement with certain individuals to set up a limited liability company in Hong Kong known as W & J Forest Resources Development Limited (hereinafter referred to as the "JV") of which Jaling owned 50 per cent. interest of the JV. The JV is responsible to the processing, sales and distribution of timber logged from the subject asset through its processing and distribution network in the People's Republic of China (or China). Jaling also agreed to grant the JV an exclusive rights to harvest 200,000 cubic meters ("cu.m.") of timber per year for a period of 10 years and the JV shall pay Jaling US$20 per cu.m. as royalties.

The JV, as advised, on behalf of Jaling, is liable to pay a total lump sum of US$44 per cu.m. of timber logged by a contractor for its service to log; and US$31 per cu.m. to Jaling for its services to pack, process, transport and export service fees.

We are given to understand that Jaling had not commenced any logging business, timber harvesting activities and falling and processing of lumber, and had not incurred any logging or harvesting costs since the date of its incorporation up to the year ended 31 December 2005. However, we are informed that logging activities are commenced recently at Block B.

As at 31 December 2005, the net asset worth of the Jaling was G$500,000.

Note: 1 US$ equals to 190 Guyanese dollars

DESCRIPTION OF THE SUBJECT ASSET

Based on the provided information, the subject asset is described as below:

1. A mixed State Forest situated on a parcel of land known as Block A, Barima/Whana Area, Port Kaituma, Barima-Waini, at the North-West District, Guyana. The concession based on natural surrounding and is bounded on the North by the Amakura River, on the South by the Baramita Amerindian Reserves and Whana River, on the East by the Whannamaparu and Whana River, and on the West by the common border of Guyana and Venezuela. It lies within the Northwest border of Guyana, South America. The area of this State Forest is approximately 117,545 hectares.

   There is no village or community inside the concession. The Baramita Amerindian Reserves lies below the South boundary of the concession and the Matthews Ridge is the neighboring village within the BCL concession area.

   This parcel of land has a number of medium and small gold mining operators. These miners are equipped with water pumps and excavators mostly along the Whana and Barima River banks. There are few makeshift camps abandoned and presently used that being found along Barima and Whana Rivers owned by miners. The BCL concession is the concentration of mostly Brazilian medium scale miners equipped with water pumps and excavators operating along and near the Main Roads (M-5 and M-6) of BCL Concession near the Barama River.

   The general configuration of the area is mainly flat, undulating and hilly, some parts are gentle slopes in all compartments. At no point reaching greater than 215 meters and lower than 30 meters altitude being the highest and lowest elevation respectively.

   Four main rivers are the Amakura in the North along the Guyana-Venezuela Border and the Whana and Whannamaparu in the East and South and Barima River located in the middle part of the concession form the major drainage system of the concession. The Whana and the Whannamaparu Rivers drain into the Barima River and the Amakura drains into a river inside the Venezuela border. A number of minor rivers and creeks are seasonal, and are slow to fast flowing with meandering channels forming scroll complexes, oxbow lakes, swamps, back swamps and ponds. However, smaller creeks form and intricate drainage pattern that complete the well-drained nature of the area. No lakes or large permanently flooded swamps occur.

2. A mixed State Forest situated on a parcel of land known as Block B, Sebai Area, Port Kaituma, Barima-Waini, at the North-West District, Guyana. Bounded on the North by WCL 6/93, on the South by the Kaituma River, (TSA 04/91-BCL) and Sebai River, on the East by the Aruka River and Sebai Amerindian Reserves and on the West by Sand Creek and Waiamu River, being the concession boundary of BCL-TSA 04/91. The area of this State Forest is approximately 19,392 hectares.

The Sebai Area is located at north of Port Kaituma. There is no gold mining operation within and outside the concession. The Sebai/Aruka Amerindian Villages is located East and Southeast outside the concession. Port Kaituma Community lies on the south and the most populous village among Arakaka and Matthews Ridge (MATARKAI) and considered the trading center of these three (3) primary villages because of its famous Port Kaituma Canal that was built by the Manganese Mining of Matthews Ridge in the early 1970's.

The Aruka, Waiamu and Kaituma are the three main rivers surrounding the concession. Two main tributary of Kaituma River is the Sand creek and Sebai River. Approximately 60% of the area is low lying, from flat to undulating terrain and the remaining 40% that represent the western part of the concession is undulating to hilly terrain.

The data used for this report is the result of the Exploratory Operations (Forest Resources Inventory) conducted on September — November 2003 as cited in the Five Year Management Plan (2005-2009) of Jaling (the "Management Plan"), dated 2005, prepared by the management of Jaling in which a detailed forestry survey section was included. Also, we have made reference to the Survey and Valuation Report as defined in this circular.

Since we are not the authorised person to conduct forestry survey in Guyana and the enormous resources required in conducting a detailed inspection and survey, we were instructed to prepare our valuation based on the quantities given in the Management Plan and the Survey and Valuation Report.

To the best of our understanding, the Strip or Cruise Line Method was used in designing the samples to be taken in Blocks A and B. A one (1) per cent. sampling intensity was acquired out of the inventory. Only the harvestable trees were counted in the inventory that includes 40 centimeter and above diameter classes. Trees are measured based on their diameter and the merchantable height, representing the utilisable portion of the trunk. These are tallied based on species and diameter classes.

Based on the combined results of the inventory of Blocks A and B, the average volume of harvestable round logs in the concession is 23 cu.m. per hectare or equivalent to 9,752 board feet. The average number of trees per hectare is 9. This volume remains valid and serves as basis of harvest up to five years.

Baromalli, the dominant forest and species type, yields the highest in terms of volume with 53.66% or 14, 102.65 cu.m. out of the total 26, 281.47 cu.m. of wood in Block A and 22.29% or 2,150.27 cu.m. out of the total 9,644.52 cu.m. in Block B. This comprises about 45.24% or 16,252.92 cu.m. out of the 35,925.99 cu.m. of total sampled species in both blocks.

Crabwood, another dominant species, ranks second with 7.18 % or 2, 579.49 cu.m. in the total accumulated volume for both blocks.

Lesser-known species comprise 13.94% of the total volume of the inventoried trees.

Based on discussions with relevant personnel, we understand that suitable trees will be cut for use as hardwood and plywood.

VALUATION PROCEDURES ADOPTED

In performing the valuation of the subject asset, we have adopted the following procedures which were agreed with the management of the Company before the engagement. They were:

- to read and based on the content of the supplied materials such as the Management Plan to arrive at our opinion. In the course of the valuation, we will assume the supplied data and information are correct and we will not ascertain the correctness of the information that contained in the supplied materials;
- to prepare and submit list(s) of required document and information regarding the subject asset during the course of valuation. The completeness of the valuation depends on the availability of the required information being supplied by the management of the Company;
- to hold discussions with relevant personnel and to review various documents such as Management Plan in order to have a better understanding on the subject asset and the use of the subject asset in the operation of Jaling as part of a going-concern business;
- to conduct appropriate research/consultation in order to obtain sufficient industry information to support our valuation. The scope of research/consultation is at the valuers own discretion;
- to perform on-desk valuation of the subject asset using the appropriate standards of value in accordance with the available standards; and
- to document our findings and conclusion in our appraisal report.

THE BASIS OF VALUATION AND ASSUMPTIONS

The subject asset is valued on the basis of market value in continued use and as part of a going-concern business of Jaling. The continued use premises assumes that the subject asset will be used for the purpose for which the subject asset was conceived or is currently used. Implicit in this definition is the fact that one would not pay more than one would have to pay for an equally desirable alternative.

Market value in continued use is not intended to represent the amount that might be realised from piecemeal or break-up disposition in the open market or for other alternate use.

Our valuation has been made on the assumption that, as at the date of valuation,

1. the legally interested party in the subject asset sells the subject asset in its highest and best form in the market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any other similar arrangement which would serve to increase the value of the subject asset;
2. the legally interested party in the subject asset has free and uninterrupted rights to assign the interests for the whole of the unexpired terms as granted and any premiums payable have already been fully paid;

3. all required licenses, certificates, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organisation have been or can readily be obtained or renewed for any use on which the value estimates contained in our report are based;

4. unless otherwise stated, the subject asset as part of a going-concern business of Jaling can be freely disposed and transferred free of all encumbrances for its existing or approved uses in the market to both local and overseas purchasers without payment of any premium to the government;

5. the prospective earnings would provide a reasonable return to the subject asset valued plus the value of other assets not included in this valuation and adequate working capital; and

6. the legally interested party in the subject asset has adopted reasonable and necessary security measures and has considered several contingency plans against any disruption (such as fire, insects and soil erosion) to the operation of the business and the proper usage of the subject asset.

Should this not be the case, it will have adverse impact to the reported value.

FACTORS CONSIDERED IN THE VALUATION

Unless otherwise stated, the valuation of the subject asset has taken account of all pertinent factors affecting the subject asset and their ability to generate value as part of a going-concern business of Jaling. The factors considered in the appraisal included, but were not limited to, the following:

- the nature and the characteristics of the subject asset;
- the present use of the subject asset as part of a going-concern business of Jaling;
- the forestry industry in Guyana and the world as a whole;
- the capability of Jaling or its associates or contractors to harvest the inventory of the subject asset in accordance with its schedule; and
- the risks facing the subject asset.

ESTABLISHMENT OF TITLES

Due to the purpose of this engagement and the market value basis of valuation, the management of the Company is requested to provide us the necessary documents to support that the legally interested party in the subject asset i.e. Jaling has free and uninterrupted rights to assign the subject asset (in this instance, an absolute title) free of all encumbrances and any premiums payable have already been paid in full. Should this not be the case or only a restricted title was available (i.e. has a right to use but further application procedures are required), no commercial (market) value will be assigned to the subject asset.

We have been provided with copies of the title documents and legal opinions dated 9 August 2006 issued by Cameron & Shepherd, lawyers qualified to practice in Guyana (the "Legal Opinion") regarding the subject asset. According to the Legal Opinion, Jaling has obtained full legal and beneficial title free from all encumbrances in respect of the subject asset granted under the Timber Sales Agreement (TSA 02/2005) dated 25 January 2005 entered between GFC by Jaling. However, we have not inspected the original documents to verify ownership or to verify any amendment which may not appear on the copies handed to us. We are not attorney of laws by nature, thus we are unable to ascertain the titles and to report any encumbrances that may be registered against the subject asset. However, we have complied with the requirements as stated in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and relied solely on the copy of the Legal Opinion with regard to the existing legally interested party in the subject asset. No responsibility and liability is assumed in relation to those opinions or copies of documents.

INSPECTIONS AND INVESTIGATIONS OF THE SUBJECT ASSET

As instructed, no physical inspections of the subject asset has been arranged, thus, we were unable to conduct any due diligence on the current status of the subject asset, and relied solely on the information,including but not limited to the Survey and Valuation Report, location plans and photographs of the subject asset, provided by the management of the Company. No verification from our part is assumed. We cannot express an opinion about or advice upon the condition of the subject asset and our reports should not be taken as making any implied representation or statement about the conditions of the subject asset. No survey, investigation, test or examination has been made to the subject asset. We are not, however, able to report that the subject asset is free from rot, insect, infestations or any other defects. No tests were carried out to the services (if any) and we are unable to identify those services covered, unexposed or inaccessible.

Our valuation has been made on the assumption that no unauthorised alteration, extension, illegal usage or addition has been made in the subject asset, and that the use of our report do not purport to be a conditional survey of the subject asset. If the management of the Company is proposing to purchase the subject asset and wants to satisfy them as to the condition of it, then the management of the Company should obtain a third party surveyor's detailed inspection and report of their own before deciding whether or not to enter into an agreement for sale and purchase.

We have not carried out on-site measurements to verify the correctness of the dimensions, specifications and areas of the subject asset, but have assumed that the figures shown on the documents and handed to us are correct. All dimensions, measurements, specifications and areas are approximations.

Our engagement and the agreed procedures to value did not include an independent land survey to verify the legal boundaries and the exact locations of the subject asset. Therefore, we are not in the position to verify or ascertain the correctness of the legal boundaries and location of the subject asset that appeared on the documents handed to us. The management of the Company or interested party in the subject asset should conduct its own legal boundaries due diligence work.

We are not aware of the content of any environmental audit or other environmental investigation or soil survey which may have been carried out on the subject asset and which may draw attention to any contamination or the possibility of any such contamination. In undertaking our work, we have been instructed to assume that no contaminative or potentially contaminative uses have ever been carried out in the subject asset. We have not carried out any investigation into past or present uses, either of the said assets or of any neighbouring land, to establish whether there is any contamination or potential for contamination to the subject asset from these uses or sites, and have therefore assumed that none exists. However, should it be established subsequently that contamination, seepage or pollution exists at the subject asset or on any neighbouring land, or that the premises have been or are being put to a contaminative use, this might reduce the value now reported.

APPROACH TO VALUE

In the process of valuing the subject asset, we have considered the three generally accepted approaches to value, namely the Market Approach, the Income Approach and the Cost Approach.

The *market approach* considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative.

The *income approach* is the present worth of the future economic benefits of ownership. This approach is generally applied to assets where there is an established and identifiable economic benefits market such as rental income or royalty income or to an aggregation of assets in an entire business enterprise/project including working capital and tangible and intangible assets.

The *cost approach* considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets including costs of transportation, cutting, commissioning and consultants' fees. Adjustment is then made for accrued depreciation from physical deterioration, condition, utility, age, functional and economic/external obsolescence.

Based on the IVS and with reference to the accounting standard, the market-based comparable method i.e. the Market Approach has been adopted. This method uses the present market value in terms of price per unit volume of the final product and the total merchantable volume of timber in the concession as basis for coming up with the estimated value. The underlying theory of this approach is existing market price is dependable parameter since it reflects how much the buyer is willing to pay and how much the seller is willing to give up his goods and services.

The approach does not discount the major costs incurred in estimating the value. It is the gross value of the product.

With these figures, the formula used to come up with the estimated market value of logs is:

$$MV = P * TV$$

Where:

MV	Market value
P	Price per cu.m. of round logs *(see Note)*
TV	Total volume of logs

Note: *A bole or a large branch after felling. Under the International Tropical Timber Organisation definition it is referred to as Industrial Roundwood. Roundwood is wood in its natural state as felled or otherwise harvested, with or without bark, round, split, roughly squared or in other forms. Roundwood includes spars, posts, poles and piles.*

The total volume of logs was determined using the following formula:

$$TV = VH * TA$$

Where:

VH	Volume per hectare
TA	Total operable area in hectares

$$TA = AC — NOAs$$

Where:

AC	Area of concession in hectares
NOAs	Non-operable Areas

The valuation method is limited to the following basic assumptions:

- That the end product or the market being assessed are for round logs;
- The TV considered in our valuation is about 2.34 million cu.m.;
- The prices of logs for various species are homogenous and the average price for all species was used as basis;
- The price of logs are of FOB (Free On Board) values in US dollars; and
- The TV considered in section headed "Matters that Might Affect the Value Reported" on page IV-14 of this circular is 2.82 million cu.m..

MATTERS THAT MIGHT AFFECT THE VALUE REPORTED

No allowance has been made in our valuation for any charges, mortgages, outstanding premium or amounts owing on the subject asset. Also, no allowance has been made in our valuation for any expenses or depreciation or taxation, which may be incurred in effecting a sale of the subject asset. Unless otherwise stated, it is assumed that the subject asset is free from all encumbrances, restrictions, and outgoings of an onerous nature which could affect its value.

We are unable to identify any adverse news against the subject asset which may affect the reported value in our report as at the latest practical date of this circular. Thus, we are not in the position to report and comment on its impact (if any) to the subject asset. However, should it be established subsequently that such news did exist at the date of valuation, we reserve the right to adjust the value reported herein.

There are a number of factors that influence the average price of the round logs in the tropical rainforests of Guyana. These factors may affect the volume and quality of product, the future market prices of the product and other external factors, they are:

Species prices

Having different wood characteristics such as density wood density and moisture content for various species determines the suitable use for a particular species. This means the prices may vary among different species. For instance, premium species such as Baromalli will have a higher value compared to lesser-known species.

End product

The flow of timber from the forest to forest products passes through different stages of processing. Forest products such as logs (and firewood) are considered raw materials as they are removed from the forests with limited processing. Other products such as roundwood, splitwood and chainsaw lumber require a degree of conversion from the raw material. In Guyana, there are three product types that are produced after further processing. These are plywood, sawmill lumber and shingles. It is important to define the end use for different type of products.

Presence of natural defects in the wood

Presence of internal and external defects on the wood also affects the quality and volume of the materials. The estimated volume per tree will decrease depending on the extent of the defects. These factors may be brought by natural (pests and diseases) and physical causes (damage). Defects of the trunk comes in many forms, these are:

- **Physical** defects, which is brought about by hauling and handling of logs;
- **Rots**, whether internal or external rot also reduces the merchantable volume of the trees. External rots could be quantified, however, internal rots are difficult to estimate; and
- **Direction of grain**, also affects the quality and workability of the wood resulting to reduced recovery and reduced quality of the end product.

Growth and Death Rates

Growth rates are also factors to be considered in the valuation. There should be a plus or minus estimate of the incremental volume of the tree at the time of harvest so that this could be compared to the actual volume during the inventory.

Calamities

The presence of typhoons, are factors that reduces the volume in forest stands. Strong winds brought by it increase the risk of damage and mortality of the standing timber.

Time

The price per unit of the product is estimated using its current prices, which is only suitable for the present. The market prices would be different based on trends, costs, interest rates and time value of money.

Buyers' preference

Most buyers prefer logs with larger diameter measurements. Except for veneers, this means that the larger the diameter of a round log there would be high recovery rate if ever the buyer would process the logs in cut to sizes lumber.

The scope of valuation has been determined with reference to the documents provided by the management of the Company and instruction given by the management of the Company. Except for the subject asset disclosed in the sections above, we are given to understand that there are inventory of two other standing forests, namely Guyana International Timbers and Silva Timbers having a total area of approximately 27,930 hectares and adjoining to the southern end and northern end of Block B of the subject asset (the "additional inventory" and see *Note*), respectively, belong to Jaling. In this regard, we have relied on the Legal Opinion addressing on the equity interest of Jaling to these two standing forests. Given that there did not have sufficient information such as tree species and volume of harvestable round logs estimations of these two additional forests made available to us, we are unable to reach an informed view of the value of the additional inventory. However, based on the advice given by the management of the Company, should the additional inventory forms part of the subject asset as at the date of valuation and with the same characteristics (species and volume) as to subject asset, we estimated that the market value of the subject asset together with the additional inventory was approximately US$310,000,000.00. Save except the above, the management of the Company has confirmed to us that it has no asset other than those specified on the documents supplied to us for this particular valuation.

SOURCES OF INFORMATION AND ITS VERIFICATION

For the purpose of this appraisal, we were furnished with various copies of documents related to this appraisal and these copies have been referenced without further verifying with the relevant bodies and/or authorities. We need to state that we are not attorney of laws by nature, therefore, we are not in the position to advise and comment on the legality and effectiveness of the documents provided by the management of the Company. No responsibility is assumed.

In the course of valuation, we have fully accepted advice given to us on such matters as planning approvals or statutory notices, titles, locations, quantities, easements, tenure, occupation, specifications, site areas and all other relevant matters.

Our procedures to value did not include undertaking a feasibility study of the proposed expansion of the subject asset. Accordingly we do not express an opinion as to the merit or demerit of any future expansion (if any).

Our engagement did not include an independent forestry survey to verify the information provided. We need to state that we are not in the forestry survey profession, therefore, we are not in the position to verify or ascertain the correctness with regard to the information provided. No responsibility is assumed.

Note: *According to the Legal Opinion, GFC has approved the grant of the additional inventory to Jaling pending execution of a Timber Sales Agreement. Upon the due execution of a Timber Sales Agreement between GFC and Jaling, Jaling will acquire full legal and beneficial title free from all encumbrances in respect of the additional inventory.*

We are not contracted to conduct a due diligence to review the existing forestry industry and related resources granting out policies in Guyana. In the course of appraisal, we have solely depended on the advices given by the management of the Company and the Guyana legal advisor as named in this report. We are unable to accept any responsibility for the reliability of the advice.

When we adopted the work products from other professions, external data providers and/or the management of the Company in our valuation, the assumptions and caveats adopted by them in arriving at their opinions also applies in our valuation. The procedures we have taken do not require us to examine all the evidences, like an auditor, in reaching at our opinion. As we have not performed an audit, we are not expressing an audit opinion in our valuation.

Unless otherwise stated, the base currency of our report is US dollars.

We have had no reason to doubt the truth and accuracy of the information provided to us by the management of the Company or its appointed personnel. Our analysis and appraisal are based upon full disclosure between us and the management of Company of material and latent facts that may affect the appraisal. We consider that we have been provided with sufficient information to reach an informed view, and have had no reason to suspect that any material information has been withheld.

LIMITING CONDITIONS OF THIS SUMMARY REPORT

This report is provided strictly for the sole use of and valid to the Company. Neither the whole nor any part of this report or any reference made hereto may be included in any published documents, circular or statement, or published in any way, without our written approval of the form and context in which it may appear. Nonetheless, we consent to the publication of this report in a circular to the Company's shareholders' reference.

We understand that the management of the Company will use our work product as part of its business diligence and we have not been engaged to make specific purchase or sale recommendations. We further understand that the management of the Company will not rely solely on our work, and that the use of our work product will not supplant other due diligence which the management of the Company should conduct in reaching its business decision. Our work is designed solely to provide information that will allow the management of the Company to make an informed decision.

Our opinion of value in this report is valid only for the stated purpose and only for the date of valuation. We or our personnel shall not be required to give testimony or attendance in court or to any government agency by reason of this report, and we accept no responsibility whatsoever to any other person.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or change of government policy or financial condition or other conditions, which occur subsequent to the date hereof.

Our maximum liability relating to services rendered under this engagement (regardless of form of action, whether in contract, negligence or otherwise) shall be limited to the charges paid to us for the portion of its services or work products giving rise to liability. In no event shall we be liable for consequential, special, incidental or punitive loss, damage or expense (including without limitation, lost profits, opportunity costs, etc.), even if it has been advised of their possible existence.

The Company is required to indemnify and hold us and our personnel harmless from any claims, liabilities, costs and expenses (including, without limitation, attorney's fees and the time of our personnel involved) brought against, paid or incurred by us at a time and in any way based on the information made available in connection with our report except to the extent that any such loses, expenses, damages or liabilities are ultimately determined to be the result of gross negligence of our engagement team in conducting its work. This provision shall survive even after the termination of this engagement for any reason.

OPINION OF VALUE

Based on the investigation, analysis, stated assumptions, limitations, reasoning and data outlined as above, and on the appraisal method employed, it is our opinion that as of the date of valuation the market value of the subject asset (before taking into consideration any transaction costs), as part of a going-concern business of Jaling, is reasonably stated by the amounts of US DOLLARS TWO HUNDRED AND FIFTY EIGHT MILLION ONLY (US$258,000,000.00).

For information purpose, as stated in section headed "Matters that Might Affect the Value Reported" on page IV-14 of this circular, on the assumption that the additional inventory was included as part of the subject asset and with the same characteristics (species and volume) as the subject asset, our opinion of value of the subject asset together with the additional inventory having a total area of approximately 164,867 hectares (before taking into consideration any transaction costs), as part of a going-concern business of Jaling, is reasonably stated by the amounts of US DOLLARS THREE HUNDRED AND TEN MILLION ONLY (US$310,000,000.00).

STATEMENTS

The concluded value in our report is based on generally accepted appraisal procedures and practices that rely extensively on assumptions and considerations, not all of which can be easily quantified or ascertained exactly. While we have exercised our professional judgement in arriving at the appraisal, the readers are urged to consider carefully the nature of such assumptions which are disclosed in our report and should exercise caution in interpreting our report.

Our valuation is prepared in line with the guidelines as contained in the IVS and have been made in conformity with the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. Also, we have followed the requirements as contained in Practice Note No. 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The valuation has been undertaken by valuers, acting as external valuers, qualified for the purpose of the valuation.

We retain a copy of our report together with the data from which it was prepared, and these data and documents will, according to the Laws of Hong Kong, keep for a period of 6 years from the date of our report and to be destroyed thereafter. We considered these records confidential, and we do not permit access to them by anyone, with the exception for law enforcement authorities or court order, without the Company's authorisation and prior arrangement made with us. Moreover, we will add the Company's information into our client list for our future reference.

We hereby certify that the fee for this service is not contingent upon our conclusion of values and we have no present nor prospective interest in the subject asset, the Company, Jaling or the values reported.

Yours faithfully,
For and on behalf of
LCH (Asia-Pacific) Surveyors Limited

Ho Chin Choi, Joseph
BSc PG Dip RPS(GP)
Managing Director

Contributing Valuers:

Rolando Arcaya *BSME ASA*
Elsa Ng Hung Mui *BSc MSc RPS(GP)*
Martin A. Talento *BSc MSc Licensed Forester*

Qualification Statements of the Valuers:

1. Mr. Joseph Ho Chin Choi has been conducting asset valuations and advisory work in Hong Kong, Macau, Taiwan, mainland China, Japan, South East Asia, Finland, Canada and the United States of America for various purposes since 1988. He obtained the Examination Certificate of the Uniform Standards of Professional Appraisal Practice issued by the American Society of Appraisers in 1996. He has extensive experience in the valuation of various types of intangible assets and power plants, toll road, health products and foodstuffs, minerals, agricultural property assets, financial services, luxurious consumer goods, pharmaceutical and biotechnology, electronic consumer products manufactory, telecommunication, media and information technology related businesses for the listed companies in Hong Kong, Canada and the United States of America. At present, he is a valuer on the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

2. Mr. Rolando R. Arcaya is an Accredited Senior Member (ASA) of the American Society of Appraisers in the discipline of machinery and equipment valuation. He specializes in the valuation of machinery and equipment in power projects, light and heavy industrial manufacturing plants, consumer products manufacturing, forest products manufacturing and special assets like stock and inventories. Rolly has over 20 years of valuation experience of which over 18 years were spent in Hong Kong. Over the length of his valuation experience, he has valued and managed the valuation of inventory of man-made forests and a number of forest product related industries like veneer and plywood plants, paper manufacturing plants, and logging concessions located in the Philippines. He has also valued a number of paper and wood processing plants in China for various purposes including accounting and financing purposes.

3. Ms. Elsa Ng Hung Mui has been conducting valuation of real estate properties in Hong Kong since 1994 and has more than 6 years of experience in valuing properties in mainland China. She obtained a Master Degree of Science in Finance and involved in various financial assets valuations and man-made forests in the past years. At present, she is a valuer in the List of Property Valuers for Undertaking Valuation for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers published by the HKIS.

4. Mr. Martin A. Talento is a Licensed Forester in the Philippines. He obtained his Bachelor of Science in Forestry (Major in Social Forestry and Forest Governance) from University of the Philippines, Masters in Environment and Natural Resources from University of the Philippines Open University, Management major in Upland Management (Senator Francis Pangilinan scholarship grantee — continuing) from University of the Philippines Open University and undergraduate units in Forest Products Engineering in the University of the Philippines. He has more than 4 years experience in forest industry study and have worked in various companies as a forestry specialist in the preparation of forest management plans, survey, blocking and inventory of annual cutting area, Environmental Impact Assessment (EIA) studies, and issuance of Resource Use Permit for timber harvesting in two selected Community Forestry projects in the Philippines. He has expertise in forest based enterprise development, forest resources inventory, environmental management and forest land-use planning, biodiversity conservation, environmental impact assessment for timber and non-timber products, agroforestry, and biological monitoring. He has facilitated trainings in the use of GPS for forest surveys, training on the formulation of community management frameworks for local cooperatives, training in forest survey and mensuration and training in setting up of biological and threat monitoring systems.

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually, and jointly and severally, accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised and issued capital of the Company were as follows:

Authorized share capital		*HK$*
10,000,000,000	Shares	100,000,000
Issued and fully paid:		
6,662,449,917	Shares	66,624,499

As at the Latest Practicable Date, the number of shares in respect of which options had been granted and not exercised under the Share Option Scheme adopted on 16 July 2004 was 128,286,948, representing 1.93% of the shares of the Company in issue, all of which were granted on 9 June 2006 exercisable within a period of 3 years at a price of HK$0.078 per share. On 1 August 2006, the Company issued a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million and each warrant shall entitle the holder to subscribe for one new share of the Company at the price of HK$0.09 per share within 3 years commencing from the date of issue.

Save as disclosed, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for or convert into Shares.

3. DISCLOSURE OF DIRECTORS' INTERESTS

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii), pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") of the Listing Rules, to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code, are as follows:

Name of Director	**Number of shares**	**Number of underlying shares (option)**	**Total**	**Percentage of issued share capital**
Mr. Fung Tsun Pong *(note a)*	1,050,000,000 (interest of controlled corporation)	6,662,449 (personal interest)	1,056,662,449	15.86%
Mr. Tsang Kam Ching David *(note b)*	Nil	66,624,499 (personal interest)	66,624,499	1%

Note:

a. Mr. Fung Tsun Pong wholly owns Ocean Gain Limited ("OGL") which was interested in 1,050,000,000 shares in the Company, representing approximately 15.76% in the issued shares of the Company. OGL is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed "Substantial Shareholders". On 9 June 2006, Mr. Fung was granted a share option, pursuant to the Share Option Scheme of the Company adopted on 16 July 2004, to subscribe for 6,662,449 new shares, representing approximately 0.1% in the issued shares of the Company, exercisable for a period of three years and at a price of HK$0.078 per share.

b. On 9 June 2006, Mr. Tsang Kam Ching David was granted a share option, pursuant to the Share Option Scheme of the Company adopted on 16 July 2004, to subscribe for 66,624,499 new shares, representing approximately 1% in the issued shares of the Company, exercisable for a period of three years and at a price of HK$0.078 per share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required, (i) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) to be notified to the Company and the Stock Exchange, or (ii) pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or (iii) pursuant to the Model Code of the Listing Rules to be notified to the Company and the Stock Exchange, or (iv) to be disclosed in this circular pursuant to the requirements of the Takeovers Code.

(b) Particulars of Directors' service contracts

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Enlarged Group or associated companies which is not determinable by the Enlarged Group within one year without payment of compensation (other than statutory compensation).

(c) Directors' interests in competing business

As at the Latest Practicable Date, none of the Directors and their respective associates has any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

(d) Directors' interests in assets and contracts

As at the Latest Practicable Date, so far as the Directors were aware and save as disclosed herein:

(i) none of the Directors or proposed Director or their associates had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to the Company or any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to, the Company or any member of the Enlarged Group, since 31 March 2006, being the date to which the latest published audited consolidated accounts of the Group were made up; and

(ii) none of the Directors or proposed Director is materially interested in any contract or arrangement entered into by the Company or any member of the Enlarged Group which contract or arrangement is subsisting at the date of this Circular and which is significant in relation to the business of the Enlarged Group.

4. SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at the Latest Practicable Date, according to the register of interests kept by the Company under section 336 of the SFO and so far as known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the

Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any option in respect of such capital:

Long position in shares or underlying shares of the Company

Name of shareholders	Capacity	No. of Shares	Percentage of issued shares
Ocean Gain Limited *(Note 1)*	Beneficial owner	1,050,000,000	15.76
Richest Billion Ltd *(Note 2)*	Beneficial owner	1,045,000,000	15.69
Allkeen Investments Limited *(Note 3)*	Beneficial owner	1,000,000,000	15.01
Huang Wailing	Beneficial owner	895,064,514	13.43

Notes:

1. Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive Director.

2. Richest Billion Ltd is wholly-owned by Ms. Li Shi Miao.

3. Allkeen Investments Limited is wholly-owned by Ms. Wong Yat Ping

Interests in the shares of other members of the Enlarged Group

Name of Company	Name of shareholder	Percentage of shareholding
The Target	Danny Chan	27%
The Target	Wealth Glory Development Limited *(note)*	17.55%
The Joint Venture	Chu Wenze	50%

Note: Wealth Glory Development Limited is wholly beneficially held by Mr. Danny Chan

5. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Company or any member of the Enlarged Group during the period commencing two years preceding the date of the Announcement and up to the Latest Practicable Date and are or may be material:

(i) the Acquisition Agreement;

(ii) the Service Agreement;

(iii) a subscription agreement dated on 14 July 2006 entered into between the Company and Lau Yat Wah, Tong Kwok Leung, Asiantop Overseas Limited and Merit Star Global Limited, the subscribers, pursuant to which the subscribers have agreed to subscribe for, and the Company has agreed to issue a total of 960,000,000 unlisted warrants for an aggregate cash consideration of HK$4 million. Each warrant shall entitle the holder thereof to subscribe for one new share of the Company at the price of HK$0.09 per share (subject to adjustment) within three years after the date of issue;

(iv) a subscription agreement dated 16 May 2006 entered into between the Company, as issuer, and Total Gain Investment Limited as subscriber, pursuant to which, the Company conditionally agreed to issue and allot to the subscriber 60,156,250 new Shares, representing approximately 0.91% of the existing issued share capital of the Company and approximately 0.90% of the issued share capital of the Company as enlarged by the subscription, at a subscription price of HK$0.128 per Share, i.e. a total consideration of HK$7,700,000, which fully settled a consultancy fee owing by the Company to the subscriber under an agency agreement dated 19 December 2005;

(v) an option agreement dated 16 May 2006 entered into between the Company and Mr. Danny Chan, pursuant to which the Company has been granted an option at a consideration of HK$1.00, exercisable by the Company within five years after the completion of the acquisition of Jaling Forest Industries Inc. to purchase from Mr. Danny Chan 51% shareholding of Garner Forest Industries Inc. at a total price of HK$60,000,000;

(vi) a conditional capital injection agreement dated 7 January 2006 entered into between the Company and 河南阜源石油化工有限公司 (Henan Fu Yuan Petroleum and Chemical Engineering Company Limited*) ("Henan Fuyuan"), a private company incorporated in the PRC, in respect of the subscription of 51% of the enlarged equity interest in Henan Fuyuan by the Company at a consideration of approximately HK$26.5 million;

(vii) five Subscription Agreements dated 9 March 2006 entered into between the Company and each of Messrs. Lee Ting Lap, Liu Guo hua, Liu Li Qiang, Pang Tung Choi, and Yu Hoi Ching, pursuant to which the Company issued and allotted 20,000,000, 50,000,000, 46,875,000, 68,437,500 and 10,000,000 new Shares (a total of 195,312,500) to them respectively, which represented approximately 0.3%, 0.76%, 0.71%, 1.04% and 0.15% (a total of 2.96%) of the issued share capital of the Company as enlarged by the said subscription, at HK$0.128 per share (an aggregate consideration of HK$25,000,000);

(viii) a property sale and purchase agreement dated 19 August 2005 entered into between Miss Yuan Yi as vendor and Triumph Kind Investment Limited, a wholly owned subsidiary of the Company as purchaser for the acquisition of a real property situated at Shenzhen, China for a consideration of RMB7,300,000 (equivalent to approximately HK$7,019,231) which was satisfied by issue of 53,994,083 new Shares (0.84% of the issued share capital of the Company as enlarged by the allotment) to the vendor pursuant to a subscription agreement dated 19 August 2005;

(ix) two subscription agreements dated 6 June 2005 entered into between the Company and Messrs. Liu Li Qiang and Lui Kwan Wing as subscribers pursuant to which the Company issued and allotted 45,600,000 and 60,800,000 new Shares (a total of 106,400,000 Shares representing approximately 1.67% of the issued share capital of the Company as enlarged by the allotment) to them respectively at HK$0.125 per share (an aggregate consideration of HK$13,300,000);

(x) the Timber Sales Agreement; and

(xi) the Joint Venture Agreement.

6. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

7. EXPERTS AND CONSENTS

(i) The following is the qualification of the experts whose statements have been included in this circular:

Name	**Qualification**
CCIF CPA Limited (“CCIF”)	Certified Public Accountants
LCH (Asia-Pacific) Surveyors Limited (“LCH”)	Chartered Surveyors

(ii) As at the Latest Practicable Date, each of CCIF and LCH has given and has not withdrawn its written consents to the issue of this circular with the inclusion herein of their letters or references to their names in the form and context in which they respectively appear.

(iii) As at the Latest Practicable Date, none of CCIF and LCH have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iv) None of CCIF and LCH have any direct or indirect interests in any assets which have been, since 31 March 2006 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

8. MISCELLANEOUS

(a) The head office and principal place of business of the Company in Hong Kong is at Room 3308, Office Tower, Convention Plaza, Wanchai, Hong Kong and the registered office of Company is situated at Caledonian House, George Town, Grand Cayman, Cayman Islands.

(b) The share registrar and transfer office of the Company in Hong Kong is Progressive Registration Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong.

(c) The company secretary of the Company is Miss Ngan Wai Kam, Sharon, a Practising Solicitor in Hong Kong.

(d) The qualified accountant of the Company is Mr. Tsang Kam Ching, David, a fellow member of the Chartered Association of Certified Accountants in the United Kingdom and a member of the HKICPA.

(e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours from 9:00 a.m. to 5:00 p.m. (except Saturdays and public holidays) at the principal office of the Company on 1 September 2006 up to and including 18 September 2006.

(a) the Company's Memorandum and Articles of Association;

(b) the annual report of the Company for the three years ended 31 March 2006;

(c) the circular dated 26 May 2006 in respect of a very substantial acquisition in relation to an acquisition of 51% interest in an utilities company despatched by the Company to its Shareholders;

(d) the accountants' report from CCIF dated 1 September 2006 as set out in Appendix II of this circular;

(e) the report from CCIF CPA Limited in respect of the unaudited pro forma financial information of the Group upon completion of the Acquisition as set out in Appendix III of this circular;

(f) the valuation report from LCH (Asia-Pacific) Surveyors Limited dated 1 September 2006 as set out in Appendix IV of this circular;

(g) the material contracts referred to in the section headed "Material Contracts" in this Appendix; and

(h) the written consents referred to under the section headed "Experts and Consents" in this Appendix.

SEAPOWER RESOURCES INTERNATIONAL LIMITED
(凱暉國際實業有限公司*)

(Incorporated in the Cayman Islands with limited liability)
(Stock code: 269)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of Seapower Resources International Limited (the "**Company**") will be held at Falcon Room II, Basement Floor, Luk Kwok Hotel, 72 Gloucester Road, Wanchai, Hong Kong, on 18 September 2006 at 11:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

(1) "**THAT**

(a) the conditional share acquisition agreement dated 10 April 2006 (the "**Acquisition Agreement**", a copy of which has been produced to the Meeting and marked "**A**" and initialled by the Chairman of the Meeting for the purpose of identification) made between the Company, Wide Forest Limited (a wholly owned subsidiary of the Company) as purchaser ("**Wide Forest**"), Jaling Forest Industries Inc. ("**Jalilng**"), Mr. Peter Chan as vendor (the "**Vendor**") and Mr. Danny Chan as guarantor, pursuant to which Wide Forest conditionally agreed to purchase a 51% equity interest in Jaling for a consideration of HK$154 million (the "**Consideration**"), of which HK$39 million shall be settled by way of cash and the balance of HK$115 million shall be satisfied by the allotment and issue of new shares by the Company, the transactions contemplated thereunder or incidental to the Acquisition Agreement and any supplemental agreement thereto as the Directors may consider necessary to be entered into between the parties, and all actions took or to be taken by the Company pursuant to the Acquisition Agreement as described in the circular to the shareholders of the Company dated 1 September 2006 (the "**Circular**", a copy of which has been produced to the Meeting and marked "**B**" and initialed by the Chairman of the Meeting for the purpose of identification) be and are hereby generally and unconditionally approved, ratified and confirmed;

* *For identification purpose only*

(b) conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the Consideration Shares (as defined below), the directors of the Company (the "**Directors**") be and are hereby generally and specifically authorized to allot and issue up to 898,437,500 new shares (the "**Consideration Shares**") of HK$0.01 each in the capital of the Company credited as fully paid at an issue price of not less than HK$0.128 per Consideration Share (the "**Special Mandate**") to the Vendor for settlement of HK$115 million, being part of the Consideration, in accordance with the terms and conditions of the Acquisition Agreement and any supplemental agreements thereto, and that the Consideration Shares shall, when allotted and issued, rank pari passu in all respects with all other shares of the Company in issue on the date of such allotments and issue, and that the Special Mandate is in addition to, and shall not prejudice nor revoke the existing general mandate granted to the Directors by the shareholders of the Company in the annual general meeting of the Company held on 31 August 2006 or such other general or special mandate(s) which may from time to time be granted to the Directors prior to the passing of this Resolution; and

(c) any one executive Director of the Company be and is hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute any agreements supplemental to the Acquisition Agreement, all such other documents, deeds, instruments and agreements and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Acquisition Agreement or any of the transactions contemplated thereunder or incidental to the Acquisition Agreement and all other matters incidental thereto, including (without limitation) exercising or enforcing any right thereunder, and to agree to any amendment to any of the terms of the Acquisition Agreement which in the opinion of any Director of the Company is not of a material nature and is in the interests of the Company."

(2) "**THAT**

(a) the conditional service agreement dated 10 April 2006 (the "**Service Agreement**", a copy of which has been produced to the Meeting and marked "**C**" and initialled by the Chairman of the Meeting for the purpose of identification) made between the Company, Jaling and Mr. Danny Chan, pursuant to which Jaling shall engage Mr. Danny Chan as its managing director for an initial term of two years commencing on the Completion Date (as defined in the Circular) and renewable by Jaling subject to consent of the Company for a further term of three years, be and is hereby approved, ratified and confirmed; and

(b) any one executive Director of the Company be and is hereby authorized for and on behalf of the Company to do all such acts and things, to sign and execute any agreements, all such other documents, deeds, instruments and agreements and to take such steps as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with the Service Agreement and all other matters contemplated thereunder and incidental thereto."

By order of the Board
Seapower Resources International Limited
Tsang Kam Ching, David
Executive Director

Hong Kong, 1 September 2006

Principal place of business:
Unit 3308, Office Tower
Convention Plaza
1 Harbour Road, Wanchai
Hong Kong

Notes:

(a) A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxies to attend and vote on his behalf. A proxy need not be a member of the Company but must be present in person to represent the member.

(b) If the appointer is a corporation, the form of proxy must be under its common seal, or under the hand of an officer or attorney duly authorized on its behalf.

(c) In order to be valid, a form of proxy must be deposited at the Company's Hong Kong branch share registrar, Progressive Registration Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. The completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting if you so wish. In the event that you attend the meeting after having lodged the form of proxy, the form of proxy will be deemed to have been revoked.

(d) Where there are joint registered holders of any share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such shares as if he was solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote and will be accepted to the exclusion of other joint registered holders in respect hereof.

As at the date hereof, the board comprises two executive directors, namely Mr. Fung Tsun Pong and Mr. Tsang Kam Ching, David; and three independent non-executive directors, namely Messrs Yip Tak On, Liu Ka Lim and Jing Baoli.