

TO THE SHAREHOLDERS OF CHINA DEVELOPMENT CORPORATION LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 21 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, 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 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 also evaluated the overall adequacy of the presentation of information in the financial statements and have considered the adequacy of the disclosure made in the financial statements as follows:

(a) *Significant uncertainty concerning the ability of the Company and the Group to continue as a going concern*

The Company and the Group incurred a net loss of HK\$213,248,000 and HK\$329,251,000 respectively for the period from 1 July 2000 to 30 September 2001, and as at 30 September 2001 the Company's current liabilities exceeded its current assets by HK\$47,550,000 while the Group's current liabilities exceeded its current assets by HK\$139,254,000. The ability of the Company and the Group to continue as a going concern will depend upon future funding being available and the settlement negotiation with a major supplier who has issued a demand letter for full repayment of the amount outstanding as detailed in (b) below. However, the evidence available to us was limited and there were no satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the ability of the Company and the Group to continue as a going-concern.

(b) *Significant uncertainty regarding the outcome of negotiation with the Group's major supplier*

The Group had a trade credit facility amounting to S\$25,000,000 or HK\$110,347,500 as at 30 September 2001 (30 June 2000: S\$25,000,000 or HK\$112,487,000) from a major supplier. This facility is secured by a corporate guarantee by the Company and a subsidiary company, and debentures comprising fixed and floating charges over all the assets of the relevant subsidiary companies. As at 30 September 2001, the trade credit facility was utilised by the relevant subsidiary companies amounted to S\$16,273,000 or HK\$71,843,000 and this amount is included in creditors and accrual charges in the balance sheet.

Subsequent to the balance sheet date, the Group received from the major supplier's lawyers a demand letter for the full repayment of the amount outstanding. As at the date of this report, the major supplier has not taken legal action against the Group as negotiation for settlement is still being discussed with the Group. The ability of the Company and the Group to continue as a going concern will depend upon the outcome of the negotiation. The financial statements do not include any adjustments that would result from a failure to reach any agreement for the settlement.

(c) *Significant uncertainty regarding the outcome of the proposed management buy-out*

Subsequent to the balance sheet date, the Company has entered into negotiation with management of a major group of subsidiary companies about a management buy-out of the relevant group of subsidiary companies. The effect of the management buy-out if successfully completed would be that the Company shall be released from all corporate guarantees given on behalf of the group of subsidiary companies but at the same time the Company would lose ownership and control of the relevant group of subsidiary companies. As the negotiation is still in progress, the financial statements do not include any adjustments that would result from the conclusion of the management buy-out.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2001 and of its loss and cash flows for the period from 1 July 2000 to 30 September 2001. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the Companies Ordinance.

John K.H. Lo & Co.

Certified Public Accountants

Hong Kong

6 February 2002