

# Independent Review Report

## TO THE BOARD OF DIRECTORS OF CHINA DEVELOPMENT CORPORATION LIMITED

### Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 15.

### Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") require the preparation of an interim financial report to be in compliance with Statements of Standard Accounting Practice No. 25 "Interim Financial Reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

### Review work performed

We conducted our review in accordance with SAS 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants, except that the scope of our review was limited as explained below.

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

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## Fundamental uncertainty

In arriving at our review conclusion, we have considered the adequacy of disclosures made in the interim financial report concerning the following:

(a) Ability to continue as a going concern

The Company and its subsidiary companies (“the Group”) incurred a net loss of HK\$25,795,000 for the six months period ended 31 March 2002, and as at 31 March 2002 the Group’s current liabilities exceeded its current assets by HK\$148,551,000. The ability of 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.

(b) Demand letter from a major supplier

The Group had a trade credit facility amounting to S\$25,000,000 or HK\$105,775,000 as at 31 March 2002 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 31 March 2002, the trade credit facility was utilised by the relevant subsidiary companies amounted to S\$16,273,000 or HK\$68,851,000 and this amount is included in creditors and accrual charges in the balance sheet.

In December 2001, 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 Group to continue as a going concern will depend upon the outcome of the negotiation. The interim report does not include any adjustments that would result from a failure to reach any agreement for the settlement.

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## (c) Management buy-out

In January 2002, the Company 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 interim report does not include any adjustments that would result from the conclusion of the management buy-out.

As a result of the above, we were unable to carry out all the review procedures, or obtain all the information and explanations we considered necessary.

## **Inability to reach a review conclusion**

Because of the significance of the possible effect of the limitation in evidence available to us, we are unable to reach a review conclusion as to whether material modifications should be made to the interim financial report for the six months ended 31 March 2002.

**John K.H. Lo & Co.**

*Certified Public Accountants*

Hong Kong

Date 27 June 2002