

## **AUDITORS' REPORT TO THE MEMBERS OF CHINA LOGISTICS GROUP LIMITED**

*(Incorporated in Hong Kong with limited liability)*

We have audited the condensed financial statements included in the Interim Financial Report set out on pages 9 to 33. The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the Group's accounting policies set out in Note 1 to the condensed financial statements and include selected explanatory notes focusing on major events. The condensed financial statements do not contain the full disclosure requirements as required to be included in annual financial statements prepared in accordance with all applicable SSAPs.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

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 SSAP 25 and the relevant provisions of the Listing Rules. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent opinion, based on our audit, on the condensed financial statements included in the interim financial report and to report our opinion to you.

### **BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the HKSA, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the interim financial report. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the interim financial report, and of whether the accounting policies are appropriate to the Group's circumstances, 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 condensed financial statements are free from material misstatement. However, the evidence available to us was limited because of the following matters:

1. As more fully explained in Note 1(e) to the condensed financial statements, there have been several changes to the Board of directors subsequent to 30 September 2001 and as disclosed in Note 20(h) the Company has already commenced legal proceedings against two of the directors regarding purported appointment of certain directors in August 2002. We have been unable to establish whether the present Board of directors is able to represent that all transactions entered into in the name of the Company and its subsidiaries during the period to 30 September 2001 have been appropriately included in the condensed financial statements.
2. We were appointed auditors on 29 August 2002 which was subsequent to the end of the Company's six months interim period. In consequence we were unable to carry out auditing procedures necessary to obtain adequate assurance regarding the quantities and condition of inventories appearing in the balance sheet at HK\$15,526,000. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding the existence of inventories (see also 3. below).
3. The Group consolidation includes a subsidiary, Ocean-Land Sports (H.K.) Limited, which operates three divisions in Hong Kong, Taiwan and Zhuhai. The Group lost control of the Zhuhai operations in December 2001, subsequent to the balance sheet date. Included in the condensed financial statements in respect of the Zhuhai division are fixed assets of HK\$890,000; current assets of HK\$32,684,000, including inventories carried at HK\$10,903,000; current liabilities of HK\$17,118,000; income of HK\$21,090,000 and a contributed profit of HK\$1,196,000. We have not been able to obtain adequate assurance concerning these amounts included in the condensed financial statements. There were no other satisfactory audit procedures that we could adopt to obtain sufficient evidence regarding these amounts in respect of the Zhuhai division.

4. The following amounts in respect of the Group's associates have been included in the condensed financial statements based on unaudited management accounts and we were unable to obtain sufficient information and explanations to satisfy ourselves that such amounts were fairly stated in the condensed financial statements:
  - the financial information in respect of the associates disclosed in Note 9;
  - share of results of the associates amounting to a loss of HK\$5,552,000 included in the condensed consolidated profit and loss account for the six months period ended 30 September 2001;
  - share of net assets of the associates of HK\$255,785,000 included in the condensed consolidated balance sheet as at 30 September 2001; and
  - as more fully explained in Note 9, the largest interest in associates relates to a 32% interest in Goodwill (Overseas) Limited which has lent HK\$642,000,000 to a company for investment in a project in Shanghai, PRC. The directors are currently unable to locate any written confirmation for the loan amount.
5. We were unable to assess the completeness and accuracy of related party disclosures as set out in Note 19.
6. Included in the condensed consolidated balance sheet are amounts due to minority shareholders of HK\$165,841,000 in respect of which we have been unable to obtain direct confirmations of the balances and the repayment terms. In particular, we have been unable to establish whether these amounts are appropriately booked as repayable after one year.
7. As more fully explained in Note 8 (a), included in investment properties is a property known as Panyu Times Place in Panyu, PRC. Tat Yeung Investment Limited, which was then 50% owned by the Group, and is now 100% owned by the Group from November 2001 onwards, has made a loan with interest totalling about HK\$84,000,000 to finance the development of the property to a subsidiary of the Group in the PRC. However, the Board has been unable to obtain satisfactory documentation to confirm the legality of this loan in respect of, inter alia, applicable PRC laws. Accordingly, we have been unable to obtain sufficient evidence to establish whether Tat Yeung Investment Limited will be able to recover the loan in the normal course of business.

8. As more fully explained in Note 8 (b), property under development relates to a project in Panyu, PRC. The Board was unable to monitor the development of the project and currently is unable to provide appropriate funding to ensure its completion. We have been unable to establish whether the amount of HK\$37,351,000 is fully recoverable.
9. Statement of Auditing Standards 450 "Opening Balances and Comparatives" issued by the HKSA requires that the auditors obtain sufficient audit evidence that opening balances do not contain misstatements which materially affect the current period's financial statements. We have considered the adequacy of the disclosures made in the condensed financial statements concerning losses incurred by the Group in connection with:
  - (a) a provision in the amount of HK\$358,445,000 made against loans advanced to Sharp Class International Limited;
  - (b) a provision against payments totalling HK\$232,620,000, including HK\$200,000,000 paid to Sharp Class International Limited, as collection agent, in connection with the purchase of an exclusive right to enter into negotiation with China National Container Corporation ("CNCC") for the acquisition of a substantial stake of a nation-wide, container based modern logistics and distribution network joint venture in the PRC; and
  - (c) an impairment charge in the amount of HK\$428,999,000 against the carrying value of an intangible asset relating to a service contract entered into by the Group with Huatong Heat Energy Technique Company Limited ("Huatong Heat") for the provision of management and technical services relating to the supply, installation and management of heating systems by Huatong Heat in the PRC.

Details of the circumstances relating to these provisions and the impairment charge are described in Notes 7, 10(b) and 10(c). The charges have been recorded in the current period but may well relate to prior periods. It was not possible for us to perform the auditing procedures necessary to obtain sufficient appropriate audit evidence concerning these charges in the period ended 30 September 2001 and whether these amounts were correctly included as assets in preceding years' financial statements. In addition, the directors consider that there may be irregularities in relation to the guaranteed minimum income received in previous years in connection with the Huatong Heat contract the proceeds of which appear to have been remitted out of the Group shortly after receipt. Accordingly, we were unable to confirm that comparative figures as at 31 March 2001 are fairly stated.

10. As explained in Note 2 to the condensed financial statements, the condensed financial statements have been prepared on the going concern basis, the validity of which depends on the Group having sufficient cash to finance its continuing, reduced operations for the foreseeable future, to be achieved through the possible disposal of some or all of its remaining assets and/or obtaining finance or financial support from a new investor. We have not been given access to all the documents available relating to the future prospects of the Group for the foreseeable future. Accordingly, we were unable to determine the reasonableness of the directors' assumptions that the Group is a going concern and able to pay its liabilities as they fall due for the foreseeable future. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to these matters.

Any adjustments in respect of the foregoing items may have consequential significant effects on the loss for the period and net assets at 30 September 2001 and 31 March 2001.

**QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY CONDENSED FINANCIAL STATEMENTS**

Because of the significance of the possible effects of the limitations in evidence available to us, we are unable to form an opinion as to whether:

- (a) the condensed financial statements have been properly prepared in accordance with SSAP 25 "Interim Financial Reporting" issued by the HKSA, and
- (b) having regard to the restricted disclosures made in condensed financial statements when compared to annual financial statements, the condensed financial statements present fairly the state of affairs of the Group as at 30 September 2001 and of the Group's loss and cash flows for the six months period then ended.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether proper books of account had been kept.

**Moore Stephens**

*Certified Public Accountants*

*Hong Kong*

17 September 2002