

To the members of
China Chengtong Development Group Limited
(Formerly, China Logistics Group Limited)
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 30 to 71 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 ("HKSA"), except that the scope of our work was limited as explained below.

28

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 Company's and 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 financial statements are free from material misstatement. However, the evidence available to us was limited because of the following matters:

1. We have not been able to verify the Group's title to certain land in Suzhou, PRC, held through a 71% subsidiary (with the remaining 29% held by a Chinese party), on which buildings with net book value of HK\$48,088,000 (cost of HK\$70,184,000, less accumulated depreciation of HK\$22,096,000) have been erected, because the relevant PRC authority has yet to give its formal approval. It is the responsibility of the Chinese party to ensure that the appropriate land use rights certificate is granted. However, to date this formality has not been completed. As a consequence, we were unable to determine if the net book value of the buildings should be written down and whether or not liabilities would have to be accrued in the financial statements for restoration costs that would be incurred in returning the land to the PRC government.
2. The share of net assets of an associate, Goodwill (Overseas) Limited, of HK\$193,488,000 included in the consolidated balance sheet as at 31 March 2003 has been included in the financial statements based on unaudited management accounts.

We were unable to obtain sufficient information and explanations to satisfy ourselves that such amount was fairly stated in the financial statements.

As more fully explained in the Note 18 to the financial statements, the interest in associate relates to a 32% interest held by a subsidiary in Goodwill (Overseas) Limited. The company's only activity apparently is the holding of a 95% interest in a Shanghai property development via a Macau incorporated company; however its financial statements have not been audited. Financial statements in respect of the Shanghai property development have been audited by PRC auditors, whose report was unqualified.

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 the financial statements concerning the Group's deficiency of net current assets amounting to HK\$153,421,000 and the Group's ability to continue as a going concern, the validity of which assumption for the preparation of the financial statements depends inter alia on the Group obtaining continuing financial support from its ultimate controlling shareholder or significantly reducing the Group's level of operating costs.

We consider that the fundamental uncertainty has been adequately accounted for and that sufficient disclosures of the details of the circumstances relating to this fundamental uncertainty have been made in the Note 3 to the financial statements. Our opinion is not qualified in this respect.

29

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found necessary had we been able to obtain sufficient evidence concerning the limitations as set out in the basis of opinion section of our audit report above, in our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 March 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

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.

Moore Stephens

Certified Public Accountants

Hong Kong, 22 July 2003