



AUDITORS' REPORT

恒健會計師行
HLM & CO.
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TO THE MEMBERS OF CHINA INVESTMENTS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 26 to 76 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, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to 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 ("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 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.



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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, certain audit evidence available to us was limited as set out below:

Accounting records and supporting documents of a subsidiary

The operation of Nanhai Heng Da Timber Company Limited ("Heng Da"), one of the operating subsidiaries of the Company, was suspended on 17th August, 2003 due to the failure of supply of electricity and steam by the power plant which was jointly built and operated pursuant to the power plant agreement dated 18th September, 2001 (the "Power Plant") resulting from its suspension of operations on that day.

On 19th August, 2003, the bank accounts, assets, books of accounts and part of its accounting records, including the accounting ledgers and vouchers, were seized by the Intermediate People's Court of Foshan City, Guangdong Province, the People's Republic of China (the "Court") in relation to the claim of Shenzhen Development Bank Foshan Branch (the "Claimant") for a bank loan contract dated 23rd May, 2003 purportedly to be entered between Heng Da and the Claimant. The books and records seized were subsequently released and returned to Heng Da on 2nd April, 2004. During the course of our audit, we noted that the books of accounts and accounting records of Heng Da have only been maintained and updated to 31st July, 2003. No ledgers, vouchers and other source documents were available for Heng Da for the period from 1st August, 2003 to 17th August, 2003 (date of suspension of operation of Heng Da) and certain source documents, mainly goods delivery and receipt notes, and production records for the year, which were not seized by the Court, but kept in Heng Da's office after the suspension of the operation, had been misplaced or lost. The former legal representative of Heng Da is uncontactable and the other key management and personnel responsible for the accounting and finance function of Heng Da had also left the company in mid August 2003.

Included in the consolidated balance sheet of the Group as at 31st December, 2003 and the consolidated income statement for the year then ended, are the following balances attributable to Heng Da:

- Equipment and machineries of HK\$51,954,000;
- Trade and other payables of HK\$24,710,000;
- Turnover of HK\$36,681,000;
- Cost of sales of HK\$35,001,000;



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- Administrative expenses of HK\$2,641,000; and
- Finance costs of HK\$3,000.

In the absence of complete accounting records, there were no satisfactory auditing procedures that we could adopt to ascertain whether the balances relating to turnover, cost of sales, administrative expenses, finance costs and the trade and other payables attributable to Heng Da which had been consolidated in the Group's financial statements have been properly accounted for and are fairly stated. We had performed a limited review on the books and records of the Company and its subsidiaries, including those of Heng Da, for the period from 1st January, 2003 to 30th June, 2003 in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKSA and we were not aware of any material modifications needed to be made to the reviewed financial statements of the Group for the period then ended.

There were no other satisfactory auditing procedures that we could adopt to ascertain whether matters referred to above have been properly accounted for and are fairly stated in the financial statements. Any adjustments arising in relation to the matters above would have a consequential effect on the loss and cash flows of the Group for the year ended 31st December, 2003 and the net assets of the Group as at that date.

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.

QUALIFIED OPINION : LIMITATION OF AUDIT SCOPE

Except for any adjustments that might have been found necessary had the books and records of Heng Da been available, 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 31st December, 2003 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.

In respect alone of the limitation on our work relating to matters specified in the "Basis of opinion" section:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit of Heng Da; and
- we were unable to determine whether proper books of account had been kept by Heng Da for the period from 1st July, 2003 to 17th August, 2003 (date of suspension of operation of Heng Da).



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Without qualifying our opinion, we draw to your attention that we have not received any direct confirmations in respect of an alleged guarantee provided by Nanhai Jia Shun Timber Company Limited ("Jia Shun"), a subsidiary of the Company, in favour of a bank as at 31st December, 2003 in respect of certain alleged loan contract between the bank and an independent third party amounting to RMB40,000,000 (equivalent to approximately HK\$38,000,000) which is the subject of a litigation between the bank and Jia Shun.

HLM & Co.

Certified Public Accountants

Hong Kong, 15th April, 2004