



AUDITORS' REPORT

恒健會計師行
HLM & CO.
Certified Public Accountants

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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 21 to 64 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 Institute of Certified Public Accountants ("HKICPA"), 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

Our opinion on the financial statements of the Group for the year ended 31st December, 2003 was qualified in view of the nature of the limitation of the scope of our audit as the result of the loss of certain accounting records of the Company's subsidiary Nanhai Heng Da Timber Company Limited ("Heng Da") after the suspension of its operation in August 2003 as explained in our audit report dated 15th April, 2004.

The former legal representative of Heng Da is still 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, and the misplaced or lost accounting records have not yet been recovered.

Included in the consolidated financial statements of the Group for the year ended 31st December, 2004 are the following balances attributable to Heng Da :

- Equipment and machineries of HK\$46,898,000;
- Trade and other payables of HK\$24,710,000; and
- Accumulated losses of HK\$960,000.

In the absence of complete accounting records, there were no satisfactory auditing procedures that we could adopt to ascertain whether the balances relating to the equipment and machineries, trade and other payables and accumulated losses attributable to Heng Da which had been consolidated in the Group's financial statements have been properly accounted for and are fairly stated.

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, 2004 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.



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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, 2004 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).

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, 2004 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, 19th April, 2005