# **INDEPENDENT AUDITORS' REVIEW REPORT**

# To the Board of Directors Paliburg Holdings Limited

## Introduction

We have been instructed by the Company to review the interim financial report set out on pages 9 to 34.

# **Respective responsibilities of Directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with SSAP 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **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. 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.

#### Fundamental uncertainty - Provisions against investments in two investee companies

In arriving at our review conclusion, we have considered the adequacy of the disclosures made in note 12 to the interim financial report concerning the outcome of the negotiations with the relevant government authorities in the People's Republic of China in respect of the resumption of a land site beneficially and collectively held by two investee companies (the "Investee Companies") during 2000. The carrying value of the Group's investments in the Investee Companies amounted to HK\$56.9 million (31st December, 2002 - HK\$56.9 million) as at 30th June, 2003 which is included in long term investments under non-current assets. As further described in note 12 to the interim financial report, the Directors are still not possible to determine at this stage with reasonable certainty the ultimate outcome of the negotiations for the reversion of the land site to the Investee Companies and hence any further provision required to be made against the Group's investments in the Investee Companies. Details of the circumstances relating to this fundamental uncertainty are described in note 12 to the interim financial report.

#### **Review conclusion**

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2003.

**Ernst & Young** Certified Public Accountants

Hong Kong 19th September, 2003