

AUDITORS' REPORT



ARTHUR ANDERSEN

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**AUDITORS' REPORT TO THE SHAREHOLDERS OF
GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**

(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") on pages 17 to 64 which have been prepared in accordance with Statements of International Accounting Standards issued by International Accounting Standards Committee ("International Accounting Standards"), other than as set out below.

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 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. 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 and performed 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. 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 arising from disagreement about accounting treatment

As of 31 December 2000, cumulative losses applicable to the minority interest of one of the Group's subsidiary exceeded the minority interest in the equity of the subsidiary ("the excess loss") by approximately RMB158,115,000. In accordance with International Accounting Standards, such excess loss should be charged against the Group except to the extent that the minority shareholder has a binding obligation to, and is able to, make good the losses. Management is currently in discussion with the minority shareholder and believes that the minority shareholder will ultimately make additional financial contributions to fund the excess loss, and accordingly, has charged the excess loss to the minority interest in the Group's 31 December 2000 consolidated financial statements. Should the Group have recorded this excess loss in accordance with International Accounting Standards, the consolidated net loss would have been increased by approximately RMB158,115,000, and minority interest on the balance sheet would have been increased by the same amount.

Except for the effect of the matters discussed in the preceding paragraph, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as of 31 December 2000 and of the loss and cash flows of the Group for the year then ended in accordance with International Accounting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Arthur Andersen & Co.

Certified Public Accountants

Hong Kong, 27 April 2001