

AUDITORS' REPORT

To the Shareholders of Guangdong Kelon Electrical Holdings Company Limited:

Arthur Andersen • Hua Qiang Certified Public Accountants (hereinafter referred to as "We") have audited the consolidated balance sheets of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2000 and 1999 and the consolidated statements of income and profit appropriation and the consolidated statements of cash flows for the years then ended and the balance sheets, statements of income and profit appropriation and the statements of cash flows of the Company as of and for the year ended 31 December 2000 and 1999. These financial statements are the responsibilities of management of the Company and the Group. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with "The Independent Auditing Standards for Certified Public Accountants" of the People's Republic of China (the "PRC"). Our audits included such tests of the accounting records and such other auditing procedures as we considered necessary and appropriate to the circumstances of the Company and the Group.

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 the relevant accounting standards and regulations, cumulative losses applicable to the minority interest should be limited to the minority interest in the equity of the subsidiary. Management is currently in discussion with the minority shareholder and believes that the minority shareholder will ultimately make additional financial contribution to absorb 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, the consolidated net loss should have been increased by approximately RMB158,115,000, and minority interest would have been increased by the same amount.

The Company absorbed 60% of the cumulative losses of the above-mentioned subsidiary under equity method of accounting in preparing the statement of income and profit appropriation for the year ended 31 December 2000. Should the Company have recorded the excess loss, the net loss of the Company should have been increased by approximately RMB158,115,000, and the long-term investments would have been reduced by the same amount.

Except for the effect of the matters discussed in the preceding paragraphs, in our opinion, the financial statements referred to above comply with the requirements of "Accounting Standards for Business Enterprises", "Accounting Regulations for Joint Stock Limited Company", "Temporary Regulations for Consolidated Financial Statements" and other relevant regulations of the PRC, and present fairly, in all material respects, the financial positions of the Company and the Group as of 31 December 2000 and 1999, the results of their operations and their cash flows for the years then ended. The accounting policies are adopted on a consistent basis.

ARTHUR ANDERSEN • HUA QIANG
CERTIFIED PUBLIC ACCOUNTANTS

Certified Public Accountants

Wang Bin Hong

Zhang Xiangji

Beijing, PRC, 27 April 2001