德勤‧關黃陳方會計師行
Certified Public Accountants
28/F, Wing On Centre
111 Connaught Road Central
Hong Kong
香港中環干諾道中111號
永安中心28樓

Deloitte Touche Tohmatsu

**TO THE SHAREHOLDERS OF**
**GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED**
廣東科龍電器股份有限公司
*(A Sino-foreign joint venture joint stock limited company established in the People's Republic of China)*

We have audited the financial statements on pages 8 to 55 which have been prepared in accordance with International Financial Reporting Standards. The revised financial statements replace the original financial statements approved by the directors on 28 March 2003.

## 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

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, the evidence available to us was limited as follows.

1. The previous auditors explained in their auditors' report on the financial statements for the year ended 31 December 2001 that they were unable to obtain reasonable representations and assurances on which they could rely for the purposes of their audit and there were no satisfactory audit procedures that they could perform to obtain reasonable assurance that all material transactions were properly recorded and completely disclosed. Against this background, we are unable to conclude as to whether the net assets of the Group (as adjusted) as at 31 December 2001 were free from material misstatement. Any adjustments to the opening net assets of the Group would affect the profit of the Group for the year ended 31 December 2002. Also, the comparative figures as at 31 December 2001 shown in the consolidated balance sheet and in the consolidated income statement for the year then ended may not be comparable with the figures for the current year.

2. Interests in associates of approximately RMB234,486,000 as at 31 December 2002 and the share of results of associates of approximately RMB4,134,000 for the year then ended incorporate certain associates on the basis of unaudited management accounts. Accordingly, we were unable to satisfy ourselves that the above amounts are free from material misstatement. Any adjustment to these amounts would affect the net assets of the Group as at 31 December 2002 and the profit of the Group for the year then ended.

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 ARISING FROM LIMITATIONS OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters described in the basis of opinion section of this report, in our opinion the revised financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit 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 limitations on our work described in the basis of opinion section of this report:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

Without qualifying our auditors' opinion, we draw attention to note 1(a) to the financial statements which explains that the Group's financial statements for the year ended 31 December 2002 issued on 28 March 2003 have been revised by the directors to account for the substance of a transaction with a former joint venture partner of the Company and to re-instate an allowance for slow moving inventories. The combined effect of these adjustments is to reduce the net assets of the Group by approximately RMB111.2 million as at 31 December 2002 and the net profit of the Group for the year then ended by approximately RMB99.6 million.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong, 3 April 2003