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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 4 to 48 which have been prepared in accordance with International Financial Reporting Standards.

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 solely to you, as a body, 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 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:

- (a) Included in turnover for the year ended 31 December 2004 of approximately RMB8,436 million were recorded sales to two customers in the People's Republic of China in the aggregate amount of approximately RMB576 million of which approximately RMB427 million were recorded in December 2004. One of these customers for which sales of RMB297 million were recorded in December was a new customer with which the Group had not previously traded. We sought but were unable to obtain direct confirmations from these customers. We were unable to satisfy ourselves as to the validity of the sales to this new customer. Of the aggregate amount of sales to these two customers during the year, approximately RMB576 million had not been settled at the balance sheet date and approximately RMB556 million remained unsettled as at the date of this report. Against this background, we were unable to obtain sufficient evidence to satisfy ourselves concerning either the validity of the above sales or the validity of the related trade receivables included in the consolidated balance sheet as at 31 December 2004. Accordingly, we were unable to satisfy ourselves that sales for the year ended 31 December 2004 and trade receivables as at that date were free from material misstatement.

- (b) The Group has recorded sales returns of over RMB200 million during the year ended 31 December 2004. Notwithstanding this, the management of the Group considered that no allowance for sales returns at 31 December 2004 is necessary. However, we were unable to obtain sufficient information and explanation to satisfy ourselves that no allowance for sales returns at 31 December 2004 is required to be made.

Any adjustments found to be necessary to the above amounts would affect the net assets of the Group as at 31 December 2004 and the loss 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 matter described in the basis of opinion section of the report, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 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 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.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

28 April 2005