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**Guangdong Kelon Electrical Holdings Company Limited**  
Auditor's Report for the Year ended 31 December 2004

De Shi Bao (Shen) Zi (05) PSZ004

**To the Shareholders of Guangdong Kelon Electrical Holdings Company Limited:**

We have audited the accompanying balance sheets of the Company and the Group as of 31 December 2004 and the related statements of income and profit appropriation and cash flows of the Company and the Group for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We planned and performed our audit in accordance with China's Independent Auditing Standards to obtain reasonable assurance as to whether the financial statements are free of material misstatement except for the matters set out below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing the accounting policies used and significant accounting estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 occurred in December 2004. One of these customers for which sales of RMB297 million were recognised in December was a new customer. We were unable to obtain direct confirmations from these customers and unable to satisfy ourselves as to the validity of the sales to the 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.

The Group 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.

In our opinion, except for any possible influence of the matters set out above, the financial statements on page 51 to page 108 present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2004 and the results of their operations and cash flows for the year then ended in accordance with the requirements of the Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises promulgated by the State.

**Deloitte Touche Tohmatsu CPA Ltd.**

**Chinese Certified Public Accountant**  
**Chen Hui Zhu**  
**Chen Xiao Gang**

Shanghai, China

28 April 2005

*The auditors' report and the accompanying financial statements are English translations of the Chinese auditors' report and statutory financial statements prepared under accounting principles and practices generally accepted in the People's Republic of China. These financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in other countries and jurisdictions. In case the English version does not conform to the Chinese version, the Chinese version prevails.*