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To the Shareholders of Guangdong Kelon Electrical Holdings Company Limited:

We have audited the accompanying balance sheets of Guangdong Kelon Electrical Holdings Company Limited (hereinafter referred to as the "Company") and the consolidated balance sheets as at 31 December 2005, the Company's and the consolidated statements of income, profit appropriation statement and statements of cash flow for 2005. 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.

Except as described below, we conducted our audit in accordance with Independent Auditing Standards for Certified Public Accountants in the People's Republic of China (the "PRC"). Such standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management in the preparation of the financial statements, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has been subject to restraints of certain objective circumstances, the causes of which together with aspects involved and their influences on the aforesaid financial statements are set out as follows:

1. As described in Note 5 to the financial statements "Particulars of subsidiaries and associates and scope of consolidated financial statements for the year", Jiangxi Kelon Industrial Development Company Limited ("Jiangxi Kelon") is a subsidiary of the Company consolidated into the financial statements of the Company for 2005. We were unable to conduct an on-site audit on Jiangxi Kelon as its assets have been seized by the court and the relevant financial personnel have left the Company. As at 31 December 2005, the financial statements of Jiangxi Kelon showed a total asset value of RMB586,000,000, accounting for 10.81% of the total consolidated assets, and its net profit for 2005 was - RMB199,600,000, accounting for 5.41% of the consolidated net profit. The specific data of the financial statements of Jiangxi Kelon for the Year 2005 are disclosed in detail in Note 5.2 to the financial statements.
2. As described in Item 9 of Note 6 to the financial statements "Fixed assets, accumulated depreciation and provision for impairment loss", the Company has since 1999 had certain of its fixed assets restated at valuation, and such fixed assets had an increase of RMB133,284,123.42 over its original cost, and an increase of RMB96,154,813.34 over its net value. As no breakdown information was recorded for the asset valuation when they were accounted for, the Company could not provide a detailed breakdown of such fixed assets, nor could it identify the corresponding fixed assets, and hence we were unable to acquire adequate evidence to determine whether such amounts should be included in the fixed asset value of the Company.
3. As described in Item 4 "Other receivables", Item 18 "Other payables" of Note 6 to the financial statements, the accounting records confirmed by the former management of the Company were not in line with its actual operations; there were material imparities found in the inter-company balances between the Company and its subsidiaries; and the transactions and inter-company balances between

the Company's headquarters and its regional sales branches were difficult to match. The Company temporarily recorded the unreconciled debit balances of RMB80,043,221.73 for the year ended 31 December 2005 into other receivables, and the unreconciled credit balances of RMB51,504,170.08 into other payables. The reason for such difference is still under investigation.

In addition, as stated in the section headed "Principal Business Revenue and Costs" in explanatory item 28 of note 6 to the accounting statements, the Company calculated the inventory for the year by counting the quantity of the finished products for the year as well as the weighted purchasing price thereof. Based on such calculation, the Company estimated the amounts of costs in respect of principal businesses for 2005. Even if such accounting method has no impact on the recognition of the balance of inventory for the year, we are not able to implement satisfactory auditing procedures to determine whether the sales costs incurred are all belong to 2005 due to the unreliability of the inventory control system.

4. As described in Note 10.4 to the financial statements, the previous land use right for the land with an area of 254,600 square meters under Shun Fu Guo Yong (2004) No. 1002282 of the Company. In respect of the transfer in June 2005, the transferee, namely Foshan Shunde Jiegao Investments Company Limited (佛山市順德區捷高投資有限公司) has finished the registration of title as per the reply of the Land and Resources Bureau of Foshan City, Shunde Branch regarding the enquiry of the title of the relevant land. Pursuant to the transfer agreement entered into between the Company and Foshan Shunde Jiegao Investments Company Limited, the price for the transfer shall be RMB169 million. As at the date the audit report, the Company has no record of having received any payment of the price for the transfer, and therefore the Company has made provision for such receivables in the sum of RMB84 million. We have made a written enquiry to the transferee but received no reply. As the Company failed to provide us with further information, we cannot carry out other alternative auditing procedures to judge whether the receivables of RMB169 million arising from the transfer of the land still exist as at 31 December 2005, and whether the provision made is sufficient.
5. As described in Notes 6.3, 6.4, and 7 to the financial statements, a series of related party transactions and abnormal cash flow occurred during the period from October 2001 to July 2005 between the Company and its largest shareholder, Guangdong Greencool Enterprise Development Limited and its related parties (the "Greencool Companies") and specified third parties, such as Tianjin Lixin Commercial Trading Development Company Limited. Such transactions and abnormal cash flow as well as the suspected fund embezzlement have been and are now under investigation of the relevant authority and the investigation has not completed as at present. As at 31 December 2005, the accounts receivable in connection with the Company and the Greencool Companies and the above specified third party companies amounted to RMB680 million. The Company has made a provision of RMB374 million in respect of the accounts receivable from Greencool Companies and the above specified third party companies. The Company also had noted financing without trading background. Given the case was still under investigation, the Company was not able to provide sufficient information. We were unable to carry out appropriate audit procedures to ascertain whether the above specified third party were related parties. We were also unable to ascertain whether such related party transactions were valid, whether sufficient disclosure has been made, whether the accounts receivable and payable were the full amount or whether sufficient provision has been made. We were unable to ascertain whether there was any material misstatement as to the Company's consolidated accounts for 2005 in relation to the cash flow from operating activities and financing activities under the Company's cash flow statement.

6. As described in Note 14 "Comparative Information" and Note 3 "Rectification of Significant Accounting Errors" to the financial statements, the Company restated the financial statements for 2004 and the prior years, and adjusted the items such as income from principal activities, profit from other activities and cost of sales for 2004 and prior years. Due to the correction of the above accounting errors, consolidated net assets of the Company as at 31 December 2004 was adjusted by a decrease of RMB209,000,000. Due to the pending investigation into the suspected infringement of laws of certain former management of the Company and the outstanding final verdict, we cannot ascertain whether the Company has adjusted all the accounting errors.

Given the matters 1-5, we were unable to ascertain whether adjustment to the opening balance has to be made after the Company has cleared its accounts. Any adjustments to the opening balance of the Company's and the consolidated financial statements in 2005 would impact the net profit as stated in the consolidated and in the Company's accounts in 2005. Besides, the consolidated and the Company's opening balance on the balance sheets, the income statements and profit appropriation statements and cash flow statements for the current year may not be comparable with those of the previous year.

In our opinion, save for the influence of restraints of certain objective circumstances on the audit scope, the Company's and the consolidated balance sheets as at 31 December 2005 and the Company's and the consolidated statements of income and profit appropriation and statements of cash flow for 2005 comply with the relevant requirements of the Accounting Standards for Business Enterprises and Accounting System for Business Enterprises promulgated by the PRC State, and present fairly, in all material respects, the financial statement position of the Company as of 31 December 2005 and the result of its operations and cash flows for the year then ended.

Furthermore, we would like to draw the attention of the financial statements users to the following: as stated in Note 6.13, Note 8 and Note 11 to the financial statements, Kelon Electrical recorded losses in the years of 2004 and 2005. Net assets of Kelon Electrical was RMB-1.090 billion as at 31 December 2005; short-term borrowings of RMB1.233 billion were overdue; and there were substantial litigations for the debts. If all these matters cannot be resolved in a short time, the continuous operations of Kelon Electrical may be affected. Kelon Electrical has disclosed the proposed improvement measures in Note 11 to its financial statements. The contents of the paragraph does not affect the published audit opinions.

Shenzhen Dahua Tiancheng Certified Public Accountants

Chinese Certified Public Accountant
Hu Chun Yun

Chinese Certified Public Accountant
Wu Jian Hui

China Shenzhen
11 August 2006

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.