

Independent Auditor's Report



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THE SHAREHOLDERS OF GUANGDONG KELON ELECTRICAL HOLDINGS COMPANY LIMITED

(廣東科龍電器股份有限公司)

(A joint stock limited company established in the People's Republic of China with limited liability)

We have audited the financial statements of Guangdong Kelon Electrical Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 118, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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 content of this report.

Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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BASIS FOR QUALIFIED OPINION

It was reported by the Company that the previous controlling shareholder, Guangdong Greencool Enterprise Development Company Limited ("Greencool Enterprise"), had entered into a series of activities/transactions during the period from 2001 to 2005 which had been harmful to the Group, including but not limited to unauthorised use of the Group's funds, fictitious sales of goods and scrap materials, unreasonable prepayments and purchases of raw materials and property, plant and equipment at unreasonable quantities and prices. These transactions were conducted through Greencool Enterprise, its affiliates and/or companies suspected to be connected with the Company's former chairman, Mr. Gu Chu Jun ("Mr. Gu"). As at 31 December 2006, the aggregate amount of receivables and aggregate amount of payables due from/to these companies were approximately RMB286 million (net of an accumulated impairment loss of RMB364 million) and RMB132 million respectively which were reflected in the consolidated balance sheet at 31 December 2006 as "Amounts due from Greencool Enterprise and its affiliates" and "Amounts due from companies suspected to be connected with Mr. Gu" within current assets and "Amounts due to Greencool Enterprise and its affiliates" and "Amounts due to companies suspected to be connected with Mr. Gu" within current liabilities. Due to the irregularity of the transactions mentioned above and limitation of information available to us, we were unable to satisfy ourselves concerning the validity of these transactions, the appropriateness of the accumulated impairment and the recoverability of the carrying amounts. Any adjustments found to be necessary would affect the net liabilities as at 31 December 2006 and the profit for the year then ended.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the matters set out in the basis for qualified opinion section of this report, the financial statements give a true and fair view of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Without qualifying our opinion, we draw attention to note 3(b) to the financial statements which indicates that the Group's current liabilities exceeded its current assets by approximately RMB2,952 million as at 31 December 2006. These conditions, along with other matters as set forth in note 3(b) to the financial statements, include the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The directors are of the opinion that the Group will have sufficient working capital to finance its normal operations and to meet its financial obligations as they fall due for the foreseeable future and have prepared the consolidated financial statements on a going concern basis.

BDO McCabe Lo Limited

Certified Public Accountants

Chow Tak Sing, Peter

Practising Certificate Number P04659

Hong Kong, 26 April 2007