

Auditor's Report



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To the Shareholders of GuangDong Kelon Electrical Holdings Company Limited ("the Company"):

We have audited the accompanying balance sheets of the Company and the consolidated balance sheets as at December 31, 2006 and the related statements of income, profit distribution and cash flows for the year then ended (collectively "the Financial Statements") and the accompanying notes.

RESPONSIBILITY OF THE MANAGEMENT

It is the responsibility of the Company's management to prepare the Financial Statements pursuant to the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises. The responsibility includes: 1) to design, implement and maintain the internal controls related to the preparation of the Financial Statements, so as to ensure that they are free of any material misstatements due to fraud and errors; 2) to choose and apply appropriate accounting policies; and 3) and make reasonable accounting estimations.

RESPONSIBILITY OF AUDITOR

Our responsibility is to express opinions on the Financial Statements based on our audit. We conducted our audit in accordance with "China's Independent Audit Standards of Certified Public Accountants". The audit standards require that we follow the Code of Professional Ethics to plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements.

An audit involves performing procedures to obtain evidence relevant to the amounts and disclosures in the Financial Statements. The procedures selected depend on the judgments of auditor, which include an assessment of the material misstatement in the Financial Statements due to fraud and errors. When making the assessment, we need to design appropriate audit procedures considering the internal controls related to the preparation of the Financial Statements. However, the purpose of the assessment is not to express opinions on the effectiveness of the internal controls. Our audit also includes an assessment on the appropriateness of accounting policies, reasonableness of accounting estimates used by the management and the overall presentations of the Financial Statements.

We believe that our audit evidence is sufficient and reasonable and provides a reasonable basis for our opinion.

QUALIFIED ITEMS

Reserved Matter 1: "As described in Notes 6.3, 6.4, and 7 to the financial statements, a series of related parties' transactions and unusual cash flows occurred between the Company and its former largest shareholder, Guangdong Greencool Enterprise Development Limited and its related parties (the "Greencool Companies") during the period from October 2001 to July 2005. In addition, the Greencool Companies, through certain specified third party companies such as Tianjin Lixin Commercial Trading Development Company Limited, involved in a series of unusual cash flows with the Company in the same period. Such transactions and unusual cash flows as well as the suspected fund embezzlement have been reported to the relevant authority, and are pending for judgement. Such reported matters involve the accounts receivables and payables between the Company and the Greencool Companies as well as the specified third party companies mentioned above. As at 31 December 2006, the balance of the accounts receivables of the Company from the Greencool Companies and the above specified third party companies amounted to RMB651 million. The Company has made a provision of RMB364 million in respect of the accounts receivables from Greencool Companies and the above specified third party companies. We were unable to adopt appropriate audit procedures to obtain sufficient and appropriate audit evidence to ascertain whether the estimated provision for bad debts is reasonable and the assessment and calculation of the receivables is reasonable.

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Reserved Matter 2: As described in Note 6.26 "Revenues and Costs of Principal Operations" to the financial statements, in 2005 the Company adopted a method of calculating the inventory at year-end based on the result of stock take at year-end and weighted purchase unit prices, upon which the costs of principal operations in 2005 was back-calculated. Even though such method will not have any impact on the audit of the balance of inventory by the end of 2005, however, due to unreliability of the control system prior to 2005, we were unable to perform satisfactory audit procedures to determine whether the cost of principal operations back-calculated all attributable to 2005. In our audit on the income statement in 2005, we have expressed a qualified opinion on the cost of principal operations. In the year 2006, the management of the Company could not take appropriate measures to rectify such accounting error and make retrospective adjustments to the cost of the principal operations in 2005. The reserved matters above will not impose any impact on the acknowledgment of the income statement of 2006 and the cash flow statement of 2006.

AUDIT OPINION

In our opinion, except for the two items mentioned above, the above-mentioned financial statements have been prepared in compliance with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises and present fairly, in all material respects, the financial position of the Company as at December 31, 2006, and the results of operations and cash flows of the Company for the year then ended.

BDO Shenzhen Dahua Tiancheng

Shenzhen, PRC

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Hu Chun Yuan

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Wu Jian Hui

April 26, 2007

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.