# GUANGDONG SUNRISE HOLDINGS CO., LTD.

# 2002 ANNUAL REPORT

## Important Notes

Board of Directors of Guangdong Sunrise Holdings Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions nor errors which would render any statement misleading.

Shenzhen Dahua Tiancheng Certified Public Accountants issued an Auditors' Report with reserve opinion, and the Board of Directors and the Supervisory Committee of the Company made explanations in details for the relevant matters, the investors are suggested to notice the content.

Seven directors attended the Board meeting, in which the 2002 Annual Report was examined. Director Luo guohua, Peng Jihu, Liu Zhanjun and Zang Weidong were absent from this meeting.

Chairman of the Board of the Company Mr. Yang Fenbo, Person in charge of Financial Affairs and concurrently Deputy General Manager Mr. Pan Shiming, Person in charge of Handing Accounting affairs Yun Chunhua hereby confirm that the Financial Report of the Annual Report is true and complete.

## Contents

## I. COMPANY PROFILE

1. Legal name of the Company in Chinese: 广东盛润集团股份有限公司
   Legal name of the Company in English: Guangdong Sunrise Holdings Co., Ltd.
   (Abbreviation: SUNRISE)
2. Legal Representative: Yang Fenbo
3. Secretary of Board of Directors: Pan Shiming
   Contact Tel: (86) 755 83361666-209
   Fax: (86) 755 83204588
   Authorized Representative in Charge of Securities Affairs: Ao Yingchun
   Contact Address: Secretariat on the 6th Floor, Jia Hua Bldg., Huaqiang North Road, Shenzhen
   E-mail: lionda@mailcenter.com.cn
4. Registered Address: Huaqiang North Road, Shenzhen, Guangdong, PRC
   Office Address: 6th Floor, Jiahua Bldg., Huaqiang North Road, Shenzhen
   Post Code: 518031
   International Website of the Company: www.lionda.com
   E-mail of the Company: szlionda@public.szptt.net.cn

5. Newspapers Chosen for Disclosing the Information of the Company:
   Securities Times and Ta Kung Pao
   Internet Website Designated by CSRC for Publishing the Annual Report:
   http://www.cninfo.com.cn
   The Place Where the Annual Report is Prepared and Placed: Secretariat on the 6th Floor of the Company,
6. Stock Exchange Listed with: Shenzhen Stock Exchange
   Short Form of the Stock: ST Sunrise A, ST Sunrise B
   Stock Code: 000030, 200030

7. Other Relevant Information of the Company
   The initial registration of the Company:

Date: Sep. 1993

Place: Jia Hua Bldg., Huaqiang North Road, Shenzhen

Registered code of enterprise legal person's business license: 4400001001658

Registered code of tax: Shen National Revenue 440301190325278

Shen Local Tax 440304190325278

Name and address of Certified Public Accountants engaged by the Company:

Shenzhen Dahua Tiancheng Certified Public Accountants

Office Address: 11th Floor, Tower B, Lian He Plaza, Bin He Road, Shenzhen

## II. SUMMARY OF ACCOUNTING HIGHLIGHTS AND BUSINESS HIGHLIGHTS

1. Accounting data and business indexes as of the year 2002(Unit: In RMB)

| | |
|---|---|
| Total profit | -566,485,585.72 |
| Net profit | -566,485,166.06 |
| Net profit after deducting non-recurring gains and losses | -272,054,382.58 |
| Profit from core business | 5,254,475.21 |
| Profit from other business | 5,938,792.76 |
| Operating profit | -241,236,184.54 |
| Investment income | -14,757,537.75 |
| Subsidy income | 0 |
| Net income / expenditure from non-operating | -310,491,863.43 |
| Net cash flows arising from operating activities | -1,944,121.53 |
| Net increase/decrease in cash and cash equivalents | -18,300,700.00 |

Note1: Net profit of the Company calculated based on International Accounting Standard was RMB –540,425,000.00, as well as earnings per share of RMB –1.874. Reason of difference in net profit calculated according to CAS and IAS are as following:

| | | Share in result of shareholder (RMB'000) |
|---|---|---|
| Financial report audited by Chinese CPA | | -566,485 |
| Adjustment | Switched back expenses to be apportioned | -13 |

| | | |
|---|---|---|
| | Adjustment as sell minority shareholders' equity of subsidiaries | 9,859 |
| | Adjustment as sell equity of associated company | 3,153 |
| | Unable to pay account payable | 13,061 |
| As restated under IAS | | -540,425 |

Note 2: Items of non-recurring gains and losses and the relevant amount: (Unit: RMB)

| | |
|---|---|
| Disposal gains and losses of investee company's equity | 16,061,079.95 |
| Net income / expenditure from non-operating | -310,491,863.43 |
| Total non-recurring gains and losses | -294,430,783.48 |

2. Major accounting date and financial indexes over the past three years ended by the report year (Unit: In RMB)

| **Items** | **2002** | **2001** | **2000** | |
|---|---|---|---|---|
| | | | **Before adjustment** | **After adjustment** |
| Income from core business | 6,711,824.10 | 514,193,221.51 | 739,838,601.55 | 739,838,601.55 |
| Net profit | -566,485,166.06 | -995,379,245.69 | 4,203,132.20 | 6,471,504.22 |
| Total assets | 203,258,077.52 | 444,493,757.35 | 1,438,282,665.31 | 1,364,961,195.87 |
| Shareholder's equity (excluding minority interests) | -1,525,165,390.27 | -971,769,207.28 | 70,093,729.57 | 3,153,282.33 |
| Earnings per share | -1.9641 | -3.45 | 0.0146 | 0.02 |
| Weighted average | -1.9641 | -3.45 | 0.0146 | 0.02 |
| Fully diluted | -1.9641 | -3.45 | 0.0146 | 0.02 |
| Earnings per share after deducting non-recurring gains and losses | -0.9436 | -2.18 | -0.03 | -0.097 |
| Net assets per share | -5.288 | -3.37 | 0.243 | 0.011 |
| Net assets per share after adjustment | -5.2897 | -3.39 | -0.295 | -0.417 |

| | | | | |
|---|---|---|---|---|
| Net cash flows per share arising from operating activities | -0.0067 | 0.108 | -0.102 | -0.1 |

Enclosure: Supplementary statement of profit in the report year

| Profit as of the year 2001 | Earnings per share (RMB) | |
|---|---|---|
| | Fully diluted | Weighted average |
| Profit from core business | 0.0182 | 0.0182 |
| Operating profit | -0.8364 | -0.8364 |
| Net profit | -1.9641 | -1.9641 |
| Net profit after deducting non-recurring gains and losses | -0.9436 | -0.9436 |

3. Particulars about changes in shareholders' equity in the report period and the reasons (Unit: RMB)

| Items | Share capital | Capital public reserve | Surplus public reserve | Statutory public welfare fund | Retained profit | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Total | 288,420,000.00 | 366,380,670.29 | 137,828,517.30 | 18,313,616.63 | -2,317,794,577.86 | -1,525,165,390.27 |
| Amount at the period-begin | 288,420,000.00 | 353,320,144.82 | 137,800,059.70 | 18,285,159.03 | -1,751,309,411.80 | -971,769,207.28 |
| Increase in the report period | 0 | 13,060,525.47 | 28,457.60 | 28,457.60 | 0 | 0 |
| Decrease in the report period | 0 | 0 | 0 | | 566,485,166.06 | 553,396,182.99 |
| Amount at the period-end | 288,420,000.00 | 366,380,670.29 | 137,828,517.30 | 18,313,616.63 | -2,317,794,577.86 | -1,525,165,390.27 |
| Reason for change | | Transferred from accounts payable dispensed with paying | Withdrawal of price variance from employee's housing | Withdrawal of price variance from employee's housing | Deficit | Deficit |

## III. CHANGES IN SHARE CAPITAL AND PARTICULARS ABOUT SHAREHOLDERS

(I) Particulars about change in share capital

1. Statement of change in share capital

Unit: share

| Items | Before the change | Increase/decrease in this time (+, - ) | | | | | | After the change |
|---|---|---|---|---|---|---|---|---|
| | | Allotment of share | Bonus shares | Capitalization of public reserve | Additional issuance | Others | Sub-total | |
| I. Unlisted Shares | | | | | | | | |
| 1. Promoters' shares | 208560000 | | | | | | | 208560000 |
| Including: | | | | | | | | |
| State-owned share | 191400000 | | | | | | | 191400000 |
| Domestic legal person's shares | | | | | | | | |
| Foreign legal person's shares | | | | | | | | |
| Others | | | | | | | | |
| 2. Raised legal person's shares | 17160000 | | | | | | | 17160000 |
| 3. Employees' shares | | | | | | | | |
| 4. Preference shares or others | | | | | | | | |
| Total unlisted shares | 208560000 | | | | | | | 208560000 |
| II. Listed Shares | | | | | | | | |
| 1. RMB ordinary shares | 40260000 | | | | | | | 40260000 |
| 2.Domestically listed foreign shares | 39600000 | | | | | | | 39600000 |
| 3. Overseas listed foreign shares | | | | | | | | |
| 4. Others | | | | | | | | |
| Total listed shares | 79860000 | | | | | | | 79860000 |
| III. Total shares | 288420000 | | | | | | | 288420000 |

2. Issuance and listing of shares

(1) At the end of the report period, the Company issued neither new shares nor derived securities over the previous three years.
(2) The total shares and structure of shares remained unchanged in the report period.
(3) There existed no inner employees' shares in the Company.

3. About Shareholders
(1) At the end of the report period, the Company had totally 14771 shareholders.
(2) Particulars about the top ten shareholders (Ended Dec. 31, 2002)

| No. | Shareholders | Holding shares at the year-end (Shares) | Proportion in Total Shares |
|---|---|---|---|
| 1 | Shenzhen Investment Holding Corporation | 191400000 | 66.36% |
| 2 | Shenzhen Colored Metal Financial Co. Ltd. | 5280000 | 1.83% |
| 3 | Shenzhen International Trust & Investment Co. | 5280000 | 1.83% |
| 4 | CHINA EVERBRIGE HOLDINGS CO. LTD | 5033246 | 1.75% |
| 5 | Shenzhen Huachengda Investment Holding Co., Ltd. | 3960000 | 1.37% |
| 6 | Shenzhen Guoyin Investment Development Co., Ltd. | 2640000 | 0.92% |
| 7 | WEN CAN RONG | 597699 | 0.21% |
| 8 | Ren Jun Development Co., Ltd. | 381156 | 0.13% |
| 9 | Zheng Jie | 370000 | 0.13% |
| 10 | WEN PEI DONG | 353140 | 0.12% |

Note 1: Shenzhen Investment Holding Corporation is the controlling shareholder of the Company, which holds the share on behalf of the state, and holds the unlisted circulation shares. Among the top ten shareholders, Shenzhen Investment Holding Corporation is the controlling shareholder of Shenzhen International Trust & Investment Co., and they exists the associated relationship. Except for this, there exists no associated relationship between state-owned shareholder and legal person shareholder, and they do not belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company. For the shareholders of circulation share, the

Company is unknown whether there exists associated relationship, or whether the rest shareholders belong to the consistent actionist regulated by the Management Measure of Information Disclosure on Change of Shareholding for Listed Company.

(3) The controlling shareholder of the Company

The controlling shareholder of the Company Shenzhen Investment Holding Corporation was founded in July 1987, whose registered capital is RMB 2 billion, and legal representative is Li Heihu. It is the first company, which is engaged in operation of state-owned assets, and is state-owned sole corporation. It exerted the investor's rights for state-owned enterprises in line with industry, traffic and transportation on behalf of the Shenzhen municipal government, and was responsible for investment of state-owned assets and operation of property right. The controlling shareholder of Shenzehn Investment Holding Corporation is Shenzhen Municipality State-owned Assets Management Committee.

## IV. PARTICULARS ABOUT DIRECTOR, SUPERVISOR, SENIOR EXECUTIVES AND STAFF

1. Basis information

| Name | Gender | Title | Age | Office term | Holding shares | Note |
|---|---|---|---|---|---|---|
| Yang Fenbo | Male | Chairman of the Board, General Manager | 45 | May 2002-May 2005 | 0 | |
| Pan Shiming | Male | Director, Deputy General Manager, Secretary of the Board | 32 | May 2002-May 2005 | 0 | |
| Zang Weidong | Male | Director, Deputy General Manager | 57 | May 2002-May 2005 | 0 | |
| Tang Baicao | Male | Director | 46 | May 2002-May 2005 | 0 | Receiving no pay from the Company |
| Liu Chuan | Male | Director | 40 | May 2002- | 0 | Receiving no pay |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | May 2005 | | from the Company |
| Rao Jiangshan | Male | Director | 35 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Luo Guohua | Male | Director | 58 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Tang Jianxi | Male | Director | 44 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Peng Jihu | Male | Independent Director | 65 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Gao Peiye | Male | Independent Director | 46 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Liu Zhanjun | Male | Independent Director | 44 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Li Xin | Male | Chairman of the Supervisor Committee | 41 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Wang Hangjun | Male | Supervisor | 36 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Yue Luyu | Female | Supervisor | 55 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Ji Tielan | Female | Supervisor | 51 | May 2002- May 2005 | 0 | Receiving no pay from the Company |
| Jiang Dingshan | Male | Deputy General Manager | 56 | May 2002- May 2005 | 0 | |

Note: Dir. Mr. Luo Guohua took the post of chief engineer in Shenzhen International Trust & Investment Co. from Apr. 1995 to Oct. 2002; Dir. Mr. Tang Jianxi took the post of deputy general manager in Shenzhen Colored Metal Financial Co. Ltd. From Jan. 1995 to now; Supervisor Wang Hangjun took the post of secretary of the Auditing Dept. in Shenzhen Investment Holding Corporation from Oct. 2001 to now.

2. Particulars about the annual remuneration

In the report year, the Company paid the annual remuneration to directors, supervisors and senior executives according to Rules of Compensation Management of the Company with their administrative position and their length of service.

The Company had totally 16 directors, supervisors and senior executives in office at present. Among them, 4 persons draw the annual remuneration from the Company, and the total annual remuneration (including basis wage, various premium, welfare, subsidy, housing allowance and others) received from the Company was RMB 528,000. Of them, one enjoyed the annual remuneration over RMB 150,000; two enjoyed between RMB 120,000 and RMB 150,000 respectively; one enjoyed between RMB 100,000 to RMB 120,000 respectively. The total amount of annual remuneration of the top three directors drawing the highest payment was RMB 416,000; the total amount of annual remuneration of the top three senior executives drawing the highest payment was RMB 416,000.

Dir. Luo Guohua, Tang Baicao, Liu Chuan, Rao Jiangshan, Tang Jianxi, Supeviror Wang Hangjun, Li Xin, Yue Luyu and Ji Tielan receive no pay from the Company, but draw the annual remuneration from Shareholding Company.

In the report year, the independent directors of the Company drew the allowance of RMB 10,000 respectively.

3. Directors, supervisors and senior executives leaving the office and engaging in the report year

In the report period, due to the reelection of the Board of Directors and the Supervisory Committee, original Chairman of the Board Mr. Li Chengyou no longer took the post of chairman of the Board; original general manager Mr. Xie Ruxian no longer took the post of general manager; original director and concurrently deputy general manager Mr. Cai Siying and Cao Jianshe no longer took the post respectively; original deputy general manager Mr. Rao Jiangshan, Mr. Liu Chuan and Mr. Ge Weimin no longer took the post of deputy general manager respectively; original chairman of the Supervisory Committee Mr. Zhao Ge no longer took the post of supervisor and chairman of the supervisory committee.

In the report period, Mr. Yang Fenbo was elected as Chairman of the Board and concurrently General Manager, Liu Chuan, Rao Jiangshan, Tang Baicao, Pan Shiming, Zang Weidong were elected as Director of the Company respectively; Mr. Li Xin was elected as Chairman of the Supervisory Committee, Pan Shiming, Zang Weidong, Jiang Dingshan were engaged as Deputy General Manager of the Company respectively. The resume of directors, supervisors and senior executives were published in Securities Times and Ta Kung Pao dated May 22, 2002.

4. About employees

The quantity of subsidiaries controlled by the Company has greatly decreased because the Court forcibly executed the auction or sold off the equity of subsidiaries, and the Company performed “the reduction”, so as to cause the quantity of employees has greatly decreased. At the end of the year 2002, the Company and the subsidiaries had totally 1054 employees. Among them, personnel under 30 years of age took 36.6% of total employees, personnel between 31 and 45 years of age took 50.4%, and personnel over 45 years of age took 13%; persons graduated from master postgraduate or above took 2.55% of total employees, persons graduated from bachelor took 18.1%, 3-years regular college graduate took 15.3%, polytechnic school graduate took 14.13%, persons graduated from senior high school took 38.57%, person graduated from junior high school or lower took 11.35%. The Company needs bear the expenses of 12 retirees.

## V. ADMINISTRATIVE STRUCTURE

(I) The Company is continually improving its administrative structure and standardizing its operation according to requirements of Company Law, Securities Law, Administration Rules of Listed Company and Guidelines Opinion on Establishing Independent Director in Listed Companies in the following terms:

1. Shareholder and the Shareholders’ General Meeting: The Company operates in a standardized way, has been practically safeguarding the rights and interests of medium and small shareholders, ensuring all shareholders could fully implemented their own rights; The

Company could convene and hold the Shareholders' General Meeting strictly according to normative opinions of the Shareholders' General Meeting.

2. Relationship between Controlling Shareholder and Public Company: The controlling shareholder Shenzhen Investment Holding Corporation hasn't overstep the Shareholders' General Meeting to interfere in the Company's decision-making and management activities; The Company is absolutely separated from the controlling shareholder in terms of personnel, assets, finance, organization and business. The Board of Directors, the Supervisory Committee and internal organizations function independently.

3. Directors and the Board of Directors: The Company elected directors strictly according to the election and employment procedure stated in the Articles of Association, and shall further improve the procedure; The number of members of the Board and its formation are in line with requirements of laws and regulations; Every director attended the Board meeting and the Shareholders' General Meeting with an active and responsible attitude, and seriously and strictly performed the obligation of director in listed company; The Company engaged experts to be independent directors. Currently, among the 11 directors, most of them either receive no salaries from the Company or come from outside of the Company.

4. Supervisors and the Supervisory Committee: The number of supervisors and the formation are in line with requirements of laws and legislations; The supervisors have been performing their obligations seriously, supervising the Company's finance and duty performance of directors, managers and other senior executives in the spirit of being responsible to shareholders.

5. Relevant Beneficiaries: The Company could fully respect and safeguard the legal rights and interests of the banks, other creditors, employees, consumers and other parties of related interests, so as to jointly promote the Company to solve problems and make development.

6. Information Disclosure: The Company replenished the staffs that were engaged in information disclosing work, and specially set up secretary of the Board and representative in charge of securities affairs, continually strengthened vocational study and training. The transfer mechanism of inner information was scientific and perfect in order to disclose the information of the Company completely, accurately and timely. The information disclosure and consultation was improved increasingly.

(II) Performance of Obligation of Independent Directors

In the report year, according to requirements in Guidelines Opinion on Establishing Independent Director in Listed Companies, the Company elected 3 independent directors in the Shareholders' General Meeting, namely, Mr. Peng Jihu, Mr. Gao Peiye and Mr. Liu Zhanjun.

In the report period, the independent directors attended the Board meeting and shareholders' general meeting strictly according to requirements of relevant laws, legislations and the Articles of Association, and expressed personal viewpoints on the decisions since they took office, which has promoted scientific and standardized decision-making procedures. The independent directors have also expressed their opinions on the self-inspection events regarding administrative structure of the Company.

(III) Particulars about separation between the Company and controlling shareholder

In the report period, the Company separated from the controlling shareholder in Respect of Business, Personnel, Assets, Organization and Finance:

1. In respect of business

The Company is completed independent from its controlling shareholder in term of business. The Company is engaged in operation and management of property, while the controlling shareholder operation of state-owned assets, and is state-owned sole corporation. It exerted the investor's rights for state-owned enterprises in line with industry, traffic and transportation on behalf of the Shenzhen municipal government, and was responsible for investment of state-owned assets and operation of property right. There existed no competition in the same trade between the Company and the controlling shareholder in respect of business.

2. In respect of personnel

The Company is absolutely independent in the management of labor, personnel and salaries. Office address and production sites are different from the controlling shareholder. The Company's senior executives including general manager, deputy general manager, person in charge of finance and secretary of the Board are full time employers in the Company without taking concurrent position in Shareholding Company, and receive salary from the Company. The controlling shareholder recommended the candidate of directors through legal procedure; the decisions on engaging and removing personnel as made in the Board meeting and the Shareholders' General Meeting could be performed efficiently.

3. In respect of assets: the Company is strictly separated from the controlling shareholder in assets, and both of them operate independently. The property right between the Company and the controlling shareholder is clear. In the report period, the controlling shareholder is neither occupies and controls the Company's assets nor interferes operation and management of the Company.

4. In respect of finance: The Company has established independent finance department as well as a set of independent and integrated accounting system and financial administration system; the Company has opened independent bank account and independently pays the tax according to laws.

(IV) Evaluation, Encouragement Mechanism and System for Senior Executives

The Company set up evaluation and encouragement and binding mechanism for Managers, which mainly included cross democratization assessing and work reporting. The Company demands Managers to write the work reporting at the end of the year, and performs elimination system for the last.

## VI. BRIEFINGS ON THE SHAREHOLDERS' GENERAL MEETING

In the report year, the Company held the Shareholders' General Meeting once, namely, the 2001 Annual Shareholders' General Meeting ("the Meeting").

The Meeting was held at the meeting room on 6/F of Jia Hua Bldg., Huaqiang North Road, Shenzhen, on May 21, 2002. There were actually 3 shareholders and shareholders' proxies attended the meeting, who represented 201,960,000 shares with voting rights, taking 70.02% of the Company's total shares. Of them, 201,960,000 domestic shares (A shares), taking 70.02% of the total share capital; there was no shareholder of foreign shares (B shares) attended the Meeting. The Meeting was in line with the relevant regulation of Company Law and the Articles of Association of the Company. Mr. Xie Ruxian presided over the Meeting.

The following 11 resolutions were examined and approved one by one by means of registered voting in the 2001 Annual Shareholders' General Meeting:

1. Examined and approved 2001 Work Report of the Board of Directors;
2. Examined and approved 2001 Work Report of the Supervisory Committee;
3. Examined and approved 2001 Financial Settlement Report;
4. Examined and approved 2001 Annual Report;
5. Examined and approved 2001 Profit Distribution Preplan and 2002 Profit Distribution Policy;
6. Examined and approved the proposal on Changing of the Company's Name;

The Company's name was changed into Guangdong Sunrise Holdings Co., Ltd. From Shenzhen Lionda Holdings Co., Ltd.

7. Examined and approved the proposal on Reelection of the Board of Directors;

The Board of Directors has expired, and member of new Board of Directors included: Yang Fenbo, Liu Chuan, Rao Jiangshan, Tang Baicao, Pan Shiming, Zang Weidong, Peng Jihu, Liu Zhanjun, Gao Peiye, Tang Jianxi and Luo Guohua.

8. Examined and approved the proposal on Reelection of the Supervisory Committee

The Supervisory Committee has expired, and member of new Supervisory Committee included: Wang Hangjun, Li Xin, Yue Luyu and Ji Tielan.

9. Examined and approved the proposal on Amending the Articles of Association;
10. Examined and approved the extraordinary proposal on the relevant authorizing;
11. Extraordinary proposal

The Company reengaged Shenzhen Dahua Tiancheng Certified Public Accountants as Auditor of the Company in 2002.

For the aforesaid proposals, with 201 960 000 shares for, taking 100% of total voting shares (including 201 960 000 A shares, taking 100% of total A shares with voting shares), there was no shareholder of foreign shares (B shares) attended the Meeting; 0 shares against, and 0 shares as abstention.

The public notice on the resolutions of 2001 Shareholders' General Meeting was published in Securities Times and Ta Kung Pao dated May 22, 2002.

## Section VII Report of the Board of Directors

I. Discussion and analysis of the whole operation in the report period

The core business of the Company in the report period was the operation and management of properties and the income from core business and profit from core business decreased by 98.69% and 91.79% respectively compared with the previous year.

The main reasons why the core business of the Company shrank by a big margin were: (1)The equity of Shenzhen New Century Drinking Water Science and Technology Co., Ltd., a holding subsidiary of the Company, was sold and the Company lost the support of core business. (2) Shenzhen Lionda Development Co., Ltd., a holding subsidiary of the Company, stopped its operating from the beginning of the year of 2002 and thus from 2002, it will not be listed into the consolidated statements of the Company. The Company no longer has the income of real estate development.

Though the Company made great efforts to solve the liabilities and guarantee risks, paid out great cost and gained obvious achievements, the risks of liabilities and guarantee were still large and it was hard to reach conformance with creditors in terms of liabilities reorganization. Since the liabilities and guarantee lawsuits were various, the assets and equity of the Company continued to be sealed up and frozen in 2002, which impacted directly on the normal operation of the Company. The bank loans of the Company reached over RMB 654 million, except for the guarantee to RMB 917 million of Shenzhen China Bicycle Company (holdings) Limited, all contingent liabilities still reached over RMB 763 million. The burden of interest and interest penalty expense was heavy and the financial expense still reached RMB 39,979,731.26. Besides, according to the requirements of Enterprise Accounting System and CSRC, in the accounting year of 2002, the Company appropriated impairment loss and estimated liabilities from the bequeathal long-term investment in the history, accounts receivable and external guarantee etc., which totally amounted to RMB 538,373,756.02, thus, the achievements of the Company again incurred a large loss based on the large loss in 2001.

II. Operation in the report period

The core business of the Company was property operation and management with the business scope mainly inside Shenzhen city. The income from core business was RMB 6,711,824.10 and the profit from core business was RMB 5,254,475.21. Since the Company had appropriated impairment loss and estimated liabilities of RMB 538,373,756.20, the net profit of the Company in 2002 was RMB-566,485,166.06 and the net assets was RMB-1,524,871,443.49.

1. Formation of core business in the report period:

Unit: in RMB

| Industry | Income from core business | Cost of core business | Profit of core business |
|---|---|---|---|
| Property operation and management | 6,711,824.10 | 1,108,334.00 | 5,254,475.21 |

2. In the report period the core business and its structure experienced comparatively large change compared with the previous report year: Due to the liabilities skein, the equity of Shenzhen New Century Drinking Water Science and Technology Co., Ltd., the former holding subsidiary of the Company, was sold off by the court to repay the liabilities and Shenzhen Lionda Development Co., Ltd., another main holding company of the Company, stopped the operation in the real estate business from the beginning of 2002, thus the Company no longer had the production and sales business of water drinking equipments and real estate development business and only had income from property operation and management with the income from core business of RMB 6,711,824.10.

3. Operation and achievement of main holding companies

Shenzhen Lionda Property Management Co., Ltd., whose 100% equity is held by the Company, is mainly engaged in the property management of small uptown, commercial buildings and parks, maintenance business, purchase and sales of byproducts, life articles, automobile fittings, tyres, tyre bells and automobile decorations and maintenance of electrical apparatus with a registered capital of RMB 1.6 million. This company accomplished an income from core business of RMB 6,711,824.10 and realized a net profit of RMB 101,844.86 in the report period.

4. Difficulties and problems arising from the operation and solutions

Since majority of liabilities of the Company has been mature, relevant creditors prosecuted to the courts, which resulted in the continuous lawsuits of the Company for many years. The majority of lawsuits have been into the phase of implementation and equity and assets of holding and share-holding enterprises held by the Company have been sealed, some important assets of which has been forced to implement. Under such environment, except for safeguarding the normal order of production and operation, the Company shall positively replied to the lawsuits and tried hard to negotiate with creditors in order to solve the liabilities crises and risks, slow the operating environment and strive for time to reorganize the Company.

The premise of reorganization of the Company is to solve the problem of guarantee of large amount. In 2002, based on Shenzhen China Bicycle Company (Holdings) Limited, a relatively holding subsidiary of the Company, gaining significant success in the overseas reorganization and successfully signing Framework Agreement on Release of Guarantee Responsibility of Lionda and Reorganization of Shenzhonghua with China Hua Rong Assets Management Company, the Company fully carried out the Framework Agreement with Hua Rong Company, solved the risks of guarantee of the Company to the principal amounting to RMB 917 million and interests amounting to RMB 800 million of Shenzhonghua (the procedures of releasing the guarantee responsibility was still in the process) and transferred 65.09 million legal person's shares of Shenzhonghua to Hua Rong Company, which made Hua Rong Company become the 1st large shareholder of Shenzhonghua and be responsible for its reorganization work, thus it largely increased the probability of reorganization of two listed companies of the Company and Shenzhonghua and the reorganization gained the progress of phase. The main work was: firstly, according to the agreement of Framework Agreement, the Company paid cash RMB 110 million to Hua Rong Company through realizing partial assets. Secondly, the Company successfully transferred its held 65,098,412 shares of legal person of A share of Shenzhonghua to Hua Rong Company. And then the Company cooperated with Shenzhonghua and Hua Rong Company to reorganize the Board of Directors and the operating management of Shenzhonghua. Hua Rong Company successfully held Shenzhonghua and was fully responsible for the reorganization work of Shenzhonghua.

Through the aforesaid series work, the Company basically released the guarantee responsibility to principal amounting to RMB 917 million and relevant interests of Shenzhonghua and cut off the guarantee dead ties of two listed companies, which made the reorganization of these two listed companies possible.

However, The Company still had very large difficulties in implementation of real reorganization with the following two main obstacles: firstly, the equity of holding companies of core business and other share-holding companies was forced to implement, thus core business shrank by a big margin and the Company had no industrial support; secondly, Though the Company had solved the large amount of guarantee of Shenzhonghua and other partial liabilities and guarantees, the liabilities and guarantee risks of the Company were still large. The value of "shell" resources was not large and was hard to attract full input of reorganization party. But the most important one was still the second obstacle and if this obstacle cannot be solved, the prosperity of the reorganization of the Company was trouble and the risk of out of the market was large.

Since the equity of New Century Drinking Water Company was sold off, the Company lost the real core business and the cash flow incurred a serious crisis. Thus, in 2002, the Company reinforced the clearing of debts and liquidity of assets and after hard work of debts clearing of liquidity, basically solved the gap of cash flow for keeping the routine operation of the Company. Simultaneously, the Company further cut down the organizations and reduced the excessive staffs, which largely reduced the management expense. The management expense was decreased by a big margin than that of the previous year. To those affiliated holding subsidiaries whose products had no markets and whose operation had no efficiency, the Company implemented bankruptcy and stop of operation. To those enterprises need to "relaxing control", the Company implemented stable diffluence strictly according to the relevant laws, regulations and policies of government and had settled the staffs of enterprises, which reduced the loss scope and loss amount of the Company through "relaxing control".

III. Investment

In the report period, the Company had no raised proceeds and there was no such situation that the application of proceeds raised through previous share offering continuing to the report period. In the report period, the Company had no investment project.

IV. Financial status and operating results

In the report period, Shenzhen Dahua Tiancheng Certified Public Accountants provided Auditors' Report with reserved opinion for the Company with detailed analysis as follows:

(1) At the end of the report period, the total assets of the Company was RMB 203,258,077.52, which decreased by 54.27% compared with that of the end of the previous year amounting to RMB 444,493,757.35. The main reasons were: firstly, the court forced to implement and sell off the equity of holding companies and share-holding companies of the Company for repaying debts; secondly, the Company appropriated impairment loss and estimated liabilities amounting to RMB 538,373,756.20 according to the regulations of Enterprise Accounting System and CSRC.

(2) In the report period, the Company had no long-term liabilities.

(3) At the end of report period, the shareholders' equity of the Company was RMB-1,525,165,390.27, which increased by 56.95% compared with that of the end of the previous year amounting to RMB-971,769,207.28 and the main reason was that the Company appropriated impairment loss and estimated liabilities of RMB 538,373,756.20.

(4) The income from core business of the Company was RMB 5,254,475.21, which decreased by 91.79% compared with that of the previous year amounting to RMB 64,022,160.57 and the main reason was that the core business shrank by a big margin.

(5) The net profit of the report period was RMB-566,485,166.06, which decreased by 43.09% compared with that of the previous year amounting to RMB-995,379,245.69 (after adjustment) and the main reason was due to the shrinkage of core business by a big margin and the difference of appropriated impairment loss and estimated liabilities.

V. Probable influence of lawsuits on the financial status of the Company

(1) The lawsuits resulted that the equity of New Century Company, a main holding subsidiary of the Company, was sold off. Thus the Company lost the support of core business, which impacted on the income from core business and profit from core business of 2002.

(2) Due to the lawsuits, the good assets and equity of the Company were forced to implement

and sell off by the court to repay the debts. Simultaneously, the Company according to the stable principle, appropriated large quantities of estimated liabilities, which made the financial indexes of net profit, net assets and total assets etc. decrease by a big margin.

VI. Routine work of the Board of Directors

In the report period, the Board of Directors held the meetings with details as follows:

1. The Company held Board meeting on April 16, 2002 and the meeting examined and approved the following resolutions:

(1) Work Report of the Board of Directors

(2) 2001 Annual Report

(3) 2001 Financial Settlement Report

(4) 2001 Profit Distribution Plan: neither to capitalize capital public reserve nor to distribute profit

(5) Estimated Profit Distribution Plan of the Next Year: if the Company realizes profit in 2002, the net profit will be used to offset the loss of the previous year.

(6) Proposal on Change of Name of the Company: the Company plans to change the name into " Guangdong Sunrise Holdings Co., Ltd.".

(7) Proposal on Change of Term and Adjustment of the Board of Directors: Li Chengyou, Xie Ruxian, Cai Siying and Cao Jianshe no longer took the post of directors and the Company plans to additionally supplement Yang Fenbo, Liuchuan, Pan Shiming and Zang Weidong as candidates of director.

(8) Proposal on Amendment of Articles of Association

The aforesaid item 1-8 should be submitted Shareholders' General Meeting for examination and approval.

To implement new Enterprise Accounting System, in 2001 the Company carried through the following accounting disposal to relevant accounts:

(1) To dispose and cancel after verification the bad debt losses of accounts receivable amounting to RMB 299,013,978.31.

(2) To dispose special reserve for bad debts of accounts receivable amounting to RMB 198,743,062.57.

(3) To cancel after verification the loss of long-term equity investment amounting to RMB 24,295,353.24.

(4) To appropriate impairment loss of long-term equity investment amounting to RMB 58,313,393.91.

(5) To cancel after verification inventory loss amounting to RMB 32,268.29

(6) To appropriate inventory impairment loss amounting to RMB 83,040,458.54.

(7) To appropriate estimated liabilities of credit guarantee amounting to RMB 412,857,378.48.

(8) To retroactively adjust the long-term deferred expense amounting to RMB 63,810,222.06.

The aforesaid item 1-8 amounted to RMB 1,140,106,115.4.

The meeting examined and approved adjustment plan of senior executives:

Xie Ruxian no longer took the post of General Manager. Cai Siying, Cao Jianshe, Liuchuang and Rao Jiangshan no longer took the post of Deputy General Manager. Appointment of Yang Fenbo as General Manager and Pan Shiming, Zang Weidong and Jiang Dingshan as Deputy General Manager.

2. The Company held Board meeting on April 23, 2002 and the meeting examined and approved the following resolutions:

From the date of signed agreement by Hua Rong Company to stop calculating all credit interests to Shenzhonghua, the Board agreed that the Company stopped calculating all credit interests of the Company to Shenzhonghua during the aforesaid period.

3. The Company held Board meeting on April 25, 2002 and the meeting examined and approved the following resolutions:

(1) The 1$^{st}$ Quarter Report of 2002

(2) The 1$^{st}$ Quarter Financial Report of 2002

(3) Proposal on Requesting Shareholders' General Meeting to Give Relevant Authorization to the Board of Directors

4.The Company held Board meeting on April 29 and the meeting examined and approved the following proposals:

(1) Agreed all equity and assets sealed up in Shanghai by Shangbu Sub-branch of China

Merchants Bank continued to be recovery origin and insurance for recovering all liabilities, which owed to Shangbu Sub-branch of China Merchants Bank by Gintian Group stated in the aforesaid three cases and confirmed that the sealing up to assets, equity and investment earnings in Shanghai continued to be valid after releasing the sealing up of Shanghai Gintian equity by Shanbu Sub-branch of China Merchants Bank. Shangbu Sub-branch of China Merchants Bank had the right to apply the court for implementing the assets, equity and investment earnings sealed up all the time and used the income assets to repay all liabilities that Gintian Group owed to Shangbu Sub-branch of China Merchants Bank.

(2) Agreed the Company to continue to take the joint guarantee responsibility for the liabilities that were in the original guarantee scope and were confirmed by Shenzhen Intermediate People's Court after releasing the sealing up of Shanghai Gintian Equity by Shangbu Sub-branch of China Merchants Bank.

If the signing of the agreement related to parties of (2002) SZ (Gintian Reorganization) No. 1 Compromise Implementation Agreement is involved in the rights and obligations of the Company and has not gained the signed authorization of the Company, thus results that the rights and interests of the Company are infringed, this agreement is invalid and the Company reserves the right to request for the compensation.

(3)Agreed to sign (2002) SZ (Gintian Reorganization) No.1 Compromise Implementation Agreement with Shangbu Sub-branch of China Merchants and all parties and authorized relevant persons of the Company to sign the relevant law documents. When any clause of (2002) SZ (Gintian Reorganization) No.1 Compromise Implementation Agreement can not be implemented, the Company continues to take joint guarantee responsibility for the liabilities in the originally relevant judgment of Shenzhen Intermediate People's Court.

5. The Company held the Board meeting on May 21, 2002 and the meeting examined and approved the following proposals:

Appointment of Yang Fenbo taking the post of Chairman of the Board of Directors

6. The Company held the Board meeting on July 2, 2002 and the meeting examined and approved the following proposals:

Since the industrial and commercial registration procedures has been completed, the Board agreed to carry through corresponding change to the taxation registration according to registration content of industrial and commercial change, namely to change the name of the Company from Shenzhen Lionda Holdings Co., Ltd. to Guangdong Sunrise Holdings Co., Ltd. and change the legal representative from Li Chengyou to Yang Fenbo.

7. The Company held the Board meeting on Aug. 6, 2002 and the meeting examined and approved the following resolutions:

(1) 2002 Interim Report

(2) 2002 Interim Financial Report

(3) Since director Mr. Luo Guohua is coming to retire in the report year, the Board suggested that Mr. Chen Zhitao replaced Mr. Luo Guohua to take the post of director.

The proposal shall be submitted to the next Shareholders' General Meeting for examination.

8. The Company held the Board meeting on Sept. 17, 2002 and the meeting examined and approved the following proposals:

Since Shenzhen Lionda Food Industrial Co., Ltd. (hereinafter referred to Food Company), a holding subsidiary of the Company, shrank in the business and incurred losses continuously, the Board agreed to pay economic compensation settlement expense amounting to RMB 2,037,590 to its existing 74 staffs and handed back capital collecting amount of staffs amounting to RMB 640,000, which totally amounted to RMB 2,677,590. Besides, since the Company had promised to compensate the margin of economic compensation settlement expense between the "relaxing controlling" of this time and the previous time to the staffs involved in the "relaxing control" of the previous time, which was possible to increase the economic compensation settlement expense of this time amounting to RMB 700,000. In principle, the aforesaid expense should be burdened with the existing assets of Food Company, but because that at present the assets of Food Company could not be realized, the Board agreed that the Company paid for it temporarily and the money advanced should be booked in the accounts receivable to Food Company.

9. The Company held the Board meeting on Oct. 23, 2002 and the meeting examined and approved the following resolutions:

(1) The 3$^{rd}$ Quarter Report of 2002

(2) The 3$^{rd}$ Quarter Financial Report

(3) To carry out Enterprise Accounting Standard and further tamp the assets, the Board agreed

to appropriate reserve for bad debts amounting to RMB 1,513,039.63 from the accounts receivable of units of Yingte Company etc. in the 3rd quarter of 2002, appropriate special reserve for bad debts amounting to RMB 43,742,711.82 from the units of Shenzhen Sun Pipeline etc. and appropriate estimated liabilities amounting to RMB 214,327,945.00 due to the provision of guarantee for the units of Guangyingda etc..

VII. Profit distribution preplan

As audited by Shenzhen Dahua Tiancheng Certified Public Accountants, the net profit of the Company realized in 2002 was RMB-560,018,343.10 and the undistributed profit was RMB-2,311,268,744.90. The Company would not distribute profit nor convert public reserve into share capital. This preplan should be submitted to Shareholders' General Meeting for examination.

VIII. Explanation of Auditors' Report with reserved opinion provided by Certified Public Accountants of the Board of Directors of the Company

Since Shenzhen Dahua Tiancheng Certified Public Accountants thought the recovery pressure of short-term liabilities of the Company was comparatively large and there were large quantities of guarantee liabilities be litigated and if these liabilities could not be cleared up, it would directly affect the sustainable operation of the Company, thus provided Auditors' Report with reserved opinion. Aiming at this, the Board of Directors considered that though facing relatively large recovery pressure of short-term liabilities, the Company still could raise running funds necessary for the normal production and operation and still had capability of sustainable operation.

## Section VIII. Report of the Supervisory Committee

I. Work of the Supervisory Committee in the report period

In the report period, the Company held the meetings of the Supervisory Committee with details as follows:

1. The Company held the meeting of the Supervisory committee on April 16, 2002 and the meeting examined and approved the following resolutions:

(1) 2001 Work Report of the Board of Directors

(2) 2001 Financial Settlement and Profit Distribution Preplan
(3) Proposal on Changing the Name of the Company into "Guangdong Sunrise Holdings Co., Ltd."
(4) Proposal on Amendment of Articles of Association
(5) Proposal on Change of Term and Adjustment of the Board of Directors
(6) Proposal on Adjustment of the Operating Management of the Company
(7) Proposal on Change of Term and Adjustment of the Supervisory Committee: Zhao Gesheng no longer took the post of supervisors and Chairman of the Supervisory Committee and Li Xin took the post of Chairman of the Supervisory Committee
(8) 2001 Report of the Supervisory Committee
  ① Particulars about operation according to law
  ② Examination of the financial status
  ③ In the report period, the transaction price of purchase and sales of assets was reasonable. There was no insider transaction or no such situation that damaged the rights and interests of partial shareholders and resulted the loss of the Company's assets.
  ④ Implementation of resolutions of Shareholders' General Meeting by the Board of Directors

Except for the aforesaid item VI and item VII "Zhao Gesheng no longer took the post of supervisors and Chairman of the Supervisory Committee and Li Xin took the post of Chairman of the Supervisory Committee, the aforesaid resolutions all should be submitted to Shareholders' General Meeting for examination and approval.

2. The Company held the meeting of the Supervisory Committee on April 25, 2002 and the meeting examined and approved the following resolutions:
(1) The 1$^{st}$ Quarter Report of 2002
(2) The 1$^{st}$ Quarter Financial Report of 2002
(3) Proposal on Requesting Shareholders' General Meeting to Give Relevant Authorization to the Board of Directors, namely:

The 1$^{st}$ Extraordinary Shareholder' General Meeting of 2001 examined and approved Framework Agreement on Releasing Guarantee Responsibility of Lionda and Reorganization of Shenzhonghua Signed by China Hua Rong Assets Management Company and Shenzhen Lionda Holdings Co., Ltd.. The main content was the Company paid cash RMB 110 million and 88 million shares of legal person's share of ST Zhonghua to China Hua Rong Assets Management Company (hereinafter referred to as Hua Rong Company) and Hua Rong Company agreed to release the Company's guarantee responsibility for the liability principal and relevant interests amounting to RMB 917 million owed to Hua Rong Company by ST Zhonghua. Hua Rong Company was responsible for the reorganization work of ST Zhonghua with the identity of the 1st large shareholder. In order to be convenient for the early implementation of this agreement to solve the responsibility of large amount of guarantee of the Company, the Board of Directors requested Shareholders' General Meeting to give authorization on relevant issues with details as follows:

①Promise of item II of Framework Agreement: During the liabilities reorganization of Shenzhonghua, the Company treated equally to all credit of Shenzhonghua and the balance credit of Hua Rong Company. Thus, the Shareholders' General Meeting authorized the Board of Directors to dispose this credit according to the promise of Framework Agreement, including derating the credit principal and interests to Shenzhonghua of the Company according to the same proportion with Hua Rong Company or other disposal way (such as interest suspension and book credti etc.);

②Promise of item I of Framework Agreement: The Company paid RMB 110 million to Hua Rong Company, including RMB 60 million was to be paid to Hua Rong Company through realizing partial assets by the Company. Thus, the Shareholders' General Meeting authorized the Board of Directors to decide to realize partial assets of the Company sealed up by Hua Rong Company according to fair price.

3.The Company held the Supervisory Committee on May 21, 2002, which examined and approved Mr. Li Xin as Chairman of the Supervisory Committee.

4.The Company held the Supervisory Committee on Aug.6, 2002, which examined and approved the following resolutions:

(1) Examined and approved 2002 Semi Annual Report

(2) Examined and approved 2002 Semi Annual Financial Report

(3) Due to the retire of the director, Mr. Luo Guohua, agreed Mr. Chen Zhitao as the director

of the Company in place of Mr. Luo Guohua and agreed to submit the proposal to the next Shareholders' General Meeting.

5. The Company held the Supervisory Committee on Oct.23, 2002, which examined and approved the following resolutions:

(1) Examined and approved the 3rd Quarter Report of 2003

(2) Examined and approved the 3rd Quarter Financial Report of 2003

(3) To implement Enterprise Accounting System and solidify assets, agreed to appropriate devaluation reserve and estimated liabilities in the 3rd quarter of 2002 including withdrawing RMB 1513039.63 bad debts reserve for account receivable of Intel Company and so on, withdrawing RMB 43742711.82 special bad debts reserve for Shenzhen Sun Pipeline and so on and withdrawing RMB 214327945.00 estimated liabilities for the guarantee of Guang Yingda and etc.

II. Independent Opinions Expressed by the Supervisory Committee on Relevant Issues

1. Operation according to law

In the report year, the Supervisory Committee, pursuant to relevant national laws and legislations, carried out superintendence on the holding procedures of Shareholders' General Meetings and Board meeting, resolution events, implementation of resolutions of Shareholders' General Meetings by the Board of Directors, performance of duties of senior executives as well as the Company's administration system etc.; It believed that in 2002, the Board of Directors strictly complied with PRC Company Law, Securities Law, Rules for Stock Listing, Articles of Association and other relevant systems, operated in a standardized manner, worked conscientiously, conducted business and made decisions in a scientific and reasonable way, and further improved internal administration and internal control system; The directors and managers haven't violated law, legislation, the Articles of Association or damaged the interests of the Company and shareholders when performing duties.

2. Financial Inspection

The Supervisory Committee made serious and careful inspection on the Company's financial system and financial status, and believed that 2002 annual financial report truly reflected its financial status and business results. The auditor's opinion issued by Shenzhen Dahua Tiancheng Certified Public Accountants and Hong Kong K.C.Oh & Company Certified

Public Accountants and their assessment on relevant events are object and fair.
3. In the report year, the Company sold assets at reasonable price, there was no inside trading, damaging of the rights and interests of part of shareholders or asset runoff and purchase of assets.
4. In the report year, the Company had no material related transactions and there was no inside trading, damaging of the rights and interests of part of shareholders or asset runoff.
5.Implementation of resolutions of the Shareholders' General Meeting by the Board of Directors
The members of the Supervisory Committee of the Company participated in the meetings of the Board of Directors and the Shareholders' General Meeting. The Supervisory Committee of the Company supervised over the implementation of resolutions of the Shareholders' General Meeting and believed that the Board of Directors patiently implemented every resolution of the Shareholders' General Meeting.

## IX. SIGNIFICANT EVENTS

(I) Material lawsuits and arbitration
Due to RMB 4.5 million overdue loan of the Company from Shenzhen Commercial Bank Shekou Sub-branch, which was provided guarantee by Shenzhen Guoyin Investment Group Co., Ltd. (hereinafter referred to as Guoyin Company), Shenzhen Commercial Bank Shekou Sub-branch impleaded the Company and Guoyin Company to Shenzhen Nanshan Court. Shenzhen Nanshan Court heard publicly the case on Mar.4, 2002 and judged that the Company should repay RMB 4.5 million principal and corresponding interest and Guoyin Company should take joint repayment liability.
China Construction Bank Shenzhen Branch signed Contract of Integrated Limit of Credit of Trade with amount of USD 7 million with the Company in 1998 and signed Inreversible Promise under the aforesaid contract with Shenzhen Petrochemical Industrial Group Co., Ltd. and China Construction Bank Shenzhen Branch issued 7 letters of credit. Because the Company did not repay in time, China Construction Bank Shenzhen Branch impleaded to Shenzhen Intermediate Court and required the Company to repay the advance payment of L/C, amounting to USD 6.25 million and HKD 5.69 million and Shenzhen Petrochemical

Industrial Group Co., Ltd. should take the joint responsibility. Shenzhen Intermediate Court heard publicly the case on July 4, 2002 and judged that the Company should repay the aforesaid payment and Shenzhen Petrochemical Industrial Group Co., Ltd. should take the joint repayment liability.

Because the Company repaid the principal and part interest on schedule of USD 7 million loan from Merchants Bank Shangbu Sub-branch and still owed USD 120,700 interest, Merchants Bank Shangbu Sub-branch impleaded the Company and the guarantor, Gintian Industry (Group) Co., Ltd.. Shenzhen Futian Court heard publicly the case on May 20 and judged that the Company should repay the aforesaid payment and Gintian Industry (Group) Co., Ltd. should take the joint repayment liability.

The Company received Civil Judgement with (1999) YZ ZI Case 209 released by Zhejiang Province Ningbo Municipal Intermediate People's Court on June 7, 2002, which judged to sell 90% equity of Shanghai Hengda Real Estate Co., Ltd. held by the Company to repay debts. The accuser, the first appellee and the second appellee of the case were respectively Ningbo Food Supply Corporation, Shenzhen Guangyingda Industry Development Co., Ltd.. The accuser put forward: On Oct.31, 1997, it signed Purchase and Sale of Contract of Green Soy Bean Oil with the first appellee and the Company would take guarantee responsibility for the ability of implementing cotract. The first appellee did execute the contract in due time. Ningbo Intermediate Court judged that the Company would undertake joint repayment liability of RMB 28.3 million and the overdue interest and frozen 90% equity of Shanghai Hengda Real Estate Co., Ltd. held by the Company. Because the Company did not implement repayment liability so far, Ningbo Intermediate Court judged to sell 90% equity of Shanghai Hengda Real Estate Co., Ltd. held by the Company to Shenzhen Lionda Holdings Limited. RMB 21.18 million sale amount would be paid to the accuser, the left debts will be resolved through negotiation of the court in future. The equity has been finished transfer presided by Ningbo Intermediate Court. Later, Ningbo Intermediate Court sold RMB 1.88 million equity of Shenzhen New Century Drinking Water Technology Co., Ltd. held by the Company to Labor Union Committee of Guangdong Sunrise Holdings Co., Ltd. and the sale amount of RMB 4.57 million would be repaid the left debts owed to the accuser. At present, the equity has been finished transfer under negotiation of Ningbo Intermediate Court.

Due to USD 25 million overdue loan of the Company from Construction Bank Shenzhen Branch Hongli Sub-branch, which was provided guarantee by Shenzhen Petrochemical Industrial Group Co., Ltd., Construction Bank Shenzhen Branch Hongli Sub-branch indicated the Company and Shenzhen Petrochemical Industrial Group Co., Ltd. to Shenzhen Intermediate Court, which heard publicly the case on July 22, 2002.

Due to USD 7 million overdue loan of the Company from Merchants Bank Shenzhen Shangbu Sub-branch and Gintian Industry (Group) Co., Ltd. provided guarantee for USD 3 million. Shenzhen Shangbu Sub-branch indicated the Company and Gintian Industry (Group) Co., Ltd. to Shenzhen Intermediate Court, which heard publicly the case on Sep.11, 2002.

Due to RMB 4 million overdue loan of the Company from Merchants Bank Shenzhen Shangbu Sub-branch and Gintian Industry (Group) Co., Ltd. provided guarantee for USD 3 million. Shenzhen Shangbu Sub-branch indicated the Company and Gintian Industry (Group) Co., Ltd. to Shenzhen Futian District Court, which heard publicly the case on Sep.11, 2002.

Due to RMB 2 million overdue loan of Shenzhen Yuda Import & Export Co., Ltd. from Bank of China Shenzhen Branch, which was provided guarantee by the Company, Bank of China Shenzhen Branch indicated the Company and Shenzhen Yuda Import & Export Co., Ltd.. On June 5, 2002, Shenzhen Luohu District Court heard and judged Shenzhen Yuda Import & Export Co., Ltd. to repay the loan and corresponding interest and the Company should take the joint repayment liability.

Due to RMB 1 million overdue loan of Shenzhen Lionda Material Import & Export Co., Ltd. from Merchants Bank Shenzhen OCT Branch, which was provided guarantee by the Company. Merchants Bank Shenzhen OCT Branch indicated the Company and Shenzhen Lionda Material Import & Export Co., Ltd.. On July 26, 2002, Shenzhen Nanshan District Court heard publicly the case.

The Company received the civil judgement of Shenzhen Intermediate People's Court on Sep.5. Because the Company provided guarantee for RMB 0.917 billion principal and corresponding interest of Shenzhen China Bicycle (Holdings) Co., Ltd. (hereinafter referred to as Shenzhen China) owed to China Huarong Assets Management Corporation (hereinafter referred to as Huarong Corporation), according to (1998) SZFJTC ZI NO.270-273 & 275 Civil Judgement and (1998) SZFJYC ZI NO153-163 Civil Judgement, Shenzhen

Intermediate Court frozen part equity of Shenzhen China and 40% equity of Shenzhen Meite Vessel Co., Ltd. held by the Company and other assets of the Company. Against the lawsuit, the Company and Huarong Corporation signed Frame Agreement on Relieving Guarantee Liability of Lionda and Reorganization of Shenzhen China on Aug.30, 2001. In the process of implementing Frame Agreement, after Shenzhen Intermediate Court sold publicly part equity of Shenzhen China held by the Company, Shenzhen Intermediate Cour judged to sell 40% equity of Shenzhen Meite Vessel Co., Ltd. held by the Company to Boeryatai Co., Ltd. as the price of USD 7.6 million on Aug.30, 2002. Now Boeryatai Co., Ltd. has paid all funds, which was paid to Huarong Corporation to repay debts. 40% equity of Shenzhen Meite Vessel Co., Ltd. has been transferred to Boeryatai Co., Ltd..

The Company received the civil judgement, subpena and indictment of Shenzhen Intermediate People’s Court on Aug.15, 2002. China Ever Bright Bank Shenzhen Branch indicated the Company and Shenzhen Guanghualin Investment Co., Ltd.. The content of indictment was as follows: the initial China Investment Bank Shenzhen Branch Sale Department provided RMB 18 million loan to Shenzhen Guanghualin Investment Co., Ltd. in Aug, 1998, which was provided guarantee by the Company. So far, Shenzhen Guanghualin Investment Co., Ltd. still has RMB 12796808 principal and corresponding interest unpaid. Shenzhen Guanghualin Investment Co., Ltd. was required to repay the owed principal and interest and the Company was required to take joint repayment liability. Shenzhen Intermediate People’s Court heard publicly the case on Sep.20, 2002 and frozen 5 million shares of Beijing Wantong Industry Co., Ltd. and 3% equity of Wuhuan (Group) Co., Ltd. held by the Company according to the requirement of Ever Bright Bank Shenzhen Branch.

Because Bank of China Shenzhen Branch Wenjindu Sub-branch indicted the Company and the share-controlling subsidiary of the Company, Shenzhen Lionda Development Co., Ltd., the Company received the subpena and indictment of Shenzhen Intermediate People’s Court on Aug.19. The content of indictment was as follows: On Aug.16, 2000, Bank of China Shenzhen Branch Wenjindu Sub-branch provided HKD 4.85 million loan to Shenzhen Lionda Development Co., Ltd., which was guaranteed by the Company. So far, Shenzhen Lionda Development Co., Ltd. still has HKD 4.45 million principal and corresponding interest unpaid. Shenzhen Futian District Court heard publicly the case on Sep.5, 2002 and judged

Shenzhen Lionda Development Co., Ltd. should repay the debts and the Company should take joint repayment liability.

Due to HKD 1.4 million overdue loan of Shenzhen Lionda Development Co., Ltd. from Merchants Bank Shenzhen Futian Sub-branch which was guaranteed by the Company, Merchants Bank Shenzhen Futian Sub-branch indicted the Company and Shenzhen Lionda Development Co., Ltd.. Shenzhen Futian District Court heard publicly the case on Sep.20, 2002.

Due to RMB 1.7 million overdue loan of Shenzhen Haima Electrical Products Co., Ltd. from Merchants Bank Shenzhen Shangbu Sub-branch which was provided guarantee by the Company. Merchants Bank Shenzhen Shangbu Sub-branch indicted the Company and Shenzhen Haima Electrical Products Co., Ltd.. On Sep.18, 2002, Shenzhen Futian District Court heard publicly the case.

The Company received the civil judgement on ending implementation of Shenzhen Intermediate People’s Court. Due to RMB 15 million overdue loan of the Company from China Ever Bright Bank Shenzhen Branch, Shenzhen Intermediate People’s Court judged the Company should repay and China Petrochemical Industrial Group Baling Petrochemical Industrial Limited should take joint repayment liability. After obliged execution of RMB 1.16 million, because the Company and Baling Petrochemical Industrial Limited had no assets available for execution, the case was ended execution.

The Company received Execution Notification of Hainan Provincial High People’s Court and civil judgement of Highest People’s Court on Sep.12, 2002. Because China Construction Bank Hainan Province Haikou City Longhua Sub-branch issued bank draft against acceptance amounting to RMB 33 million to Hainan Wanda Industry Trade Croup Co., Ltd. in 1989 and Hainan Wanda Industry Trade Croup Co., Ltd did not repay it, Construction Bank Haikou City Longhua Sub-branch indicted Hainan Wanda Industry Trade Croup Co., Ltd. and the Company. Hainan High People’s Court recognized the registered capital of Wanda Industry Trade Croup Co., Ltd. provided by the Company has not been transferred into accounts and could not reach the low limit of the stipulated registered capital, so Wanda Industry Trade Croup Co., Ltd. has not possessed enterprise legal person qualification and the Company should undertake the repayment liability of the aforesaid principal and the corresponding interest. The Company did not agree that and appealed. In 2002, the final trial of Highest People's Court retained the first trial and Hainan High People's Court has noticed the Company to conduct obliged execution.

The Company received subpena of the 1st Intermediate People's Court of Beijing and indictment of China Ever Bright Bank. The indictment was as follows: China Ever Bright Bank provided RMB 14 million for the Company but the Company did not repay in overdue time, so China Ever Bright Bank required the Company to repay the aforesaid loan and corresponding interest amounting to RMB 4,399,900. The 1st Intermediate People's Court of Beijing heard publicly the case on Nov.25, 2002.

The Company received the civil judgement of Shenzhen Intermediate People's Court on Nov.15, 2002. Because the Company provided guarantee for RMB 0.917 billion principal and corresponding interest of Shenzhen China Bicycle (Holdings) Co., Ltd. (hereinafter referred to as Shenzhen China) owed to China Huarong Assets Management Company (hereinafter referred to as Huarong Corporation), according to (1998) SZFJTC ZI NO.270-273 & 275 Civil Judgement and (1998) SZFJYC ZI NO153-163 Civil Judgement, Shenzhen Intermediate People's Court sealed up the land and the construction on land of Shenzhen China which located in No.1 Office Building, Buxin Road and Yousong Village, Baoan District, Shenzhen. Shenzhen Intermediate People's Court accepted the execution application of the applier, Huarong Corporation and judged to sell publicly the aforesaid real estates and the income from public sale was used to repay the debts.

Due to HKD 3 million overdue loan of the Company from China Commerce and Industry Bank Shenzhen Branch which was guaranteed by Shenzhen Shenbao Industrial Co., Ltd., China Commerce and Industry Bank Shenzhen Branch indicted the Company and Shenzhen Shenbao Industrial Co., Ltd. to Shenzhen Futian District People's Court which heard publicly the case on Dec.17, 2002.

Due to RMB 17.5 million overdue loan of Guoyin Company from China Commerce and Industry Bank Shenzhen Branch which was guaranteed by the Company, China Commerce and Industry Bank Shenzhen Branch indicted the Company and Guoyin Company to Shenzhen Intermediate People's Court which heard publicly the case on Dec.17, 2002.

The Company received the civil judgement of Hunan Province Yiyang City Intermediate

People’s Court on Nov.19, 2002 which judged to repay sealed capital amounting to RMB 0.8 million of Shenzhen New Century Drinking Water Technology Co., Ltd. invested by the Company to Shenzhen Lionda Holdings Limited for repaying the debts owed to Hunan Xinpeng International Trade Co., Ltd.. According to the assessment result of the entrusted by the court, the sale was worth RMB 2 million. The case has been finished implementing and the sale price has been settled to the related parties.

(II) Purchase and sale of assets, consolidation and merge

The Company received Civil Judgement with (1999) YZ ZI Case 209 released by Zhejiang Province Ningbo Municipal Intermediate People’s Court on June 7, 2002, which judged to sell 90% equity of Shanghai Real Estate Co., Ltd. held by the Company to repay debts. RMB 21.18 million sale price was all paid to Ningbo Food Supply Corporation and this equity was transferred to Shenzhen Lionda Holdings Limited presided by Ningbo Municipal Intermediate People’s Court (Please read the public notice on material lawsuits on Securities Times and Ta Kung Pao dated on June 18, 2002 for detail) Later, Ningbo Intermediate Court sold RMB 1.88 million equity of Shenzhen New Century Drinking Water Technology Co., Ltd. held by the Company to Labor Union Committee of Guangdong Sunrise Holdings Co., Ltd. and the sale amount of RMB 4.57 million would be repaid the left debts owed to the accuser. The equity has been finished transfer under negotiation of Ningbo Intermediate Court (Please read the public notice on material lawsuits on Securities Times and Ta Kung Pao dated on Aug.13, 2002 for detail.)

The Company received the civil judgement of Shenzhen Intermediate People’s Court on Sep.5, 2002. Shenzhen Intermediate Cour judged to sell 40% equity of Shenzhen Meite Vessel Co., Ltd. held by the Company to Boeryatai Co., Ltd. as the price of USD 7.6 million on Aug.30, 2002. Now Boeryatai Co., Ltd. has paid all funds to Huarong Corporation for repaying debts. 40% equity of Shenzhen Meite Vessel Co., Ltd. has been transferred to Boeryatai Co., Ltd.. (Please read the public notice on material lawsuits on Securities Times and Ta Kung Pao dated on Sep.5, 2002).

The Company received the civil judgement of Hunan Province Yiyang City Intermediate People’s Court on Nov.19, 2002 which judged to sealed capital amounting to RMB 0.8 million of Shenzhen New Century Drinking Water Technology Co., Ltd. invested by the

Company to Shenzhen Lionda Holdings Limited for repaying the debts owed to Hunan Xinpeng International Trade Co., Ltd.. According to the assessment result of the entrusted by the court, the sale was worth RMB 2 million. The case has been finished implementing. (Please read the public notice on material lawsuits on Securities Times and Ta Kung Pao dated Dec.4, 2002).

The aforesaid purchase of assets is all assets disposition in material lawsuits. In addition, the Company had neither other purchase and sale of assets nor consolidation and merge in the report period.

(III) Material related transaction

The Company had no material related transaction in the report period.

(IV) Material contracts and implementation

On Aug.30, 2001, the Company signed Frame Agreement on Relieving Guarantee Liability of Lionda and Reorganization of Shenzhen China with China Huarong Assets Management Corporation. The main content was that the Company paid RMB 0.11 billion cash (RMB 60 million was paid to Huarong Corporation through selling part assets by the Company) and 88 million legal person shares of ST China to Huarong Corporation and Huarong Corporation agreed to relieve the guarantee liability the Company provided for RMB 0.917 billion principal and corresponding interest of ST China owed to Huarong Corporation and took responsible for the work of reorganization of ST China as the biggest shareholder. On Mar.12, 2002, 65098412 legal person shares of A share of Shenzhen China Bicycle (Holdings) Co., Ltd. held by the Company was sold to Huarong Corporation as the price of RMB 0.36 per share and the sale price was RMB 23435428.32. Shenzhen Intermediate Cour judged to sell 40% equity of Shenzhen Meite Vessel Co., Ltd. held by the Company to Boeryatai Co., Ltd. as the price of USD 7.6 million on Aug.30, 2002. Now Boeryatai Co., Ltd. has paid all funds to Huarong Corporation for repaying debts. 40% equity of Shenzhen Meite Vessel Co., Ltd. has been transferred to Boeryatai Co., Ltd.. (Please read the public notice on material lawsuits on Securities Times and Ta Kung Pao dated on Sep.18, 2002).

(V) Other significant events

1.In the report period, the Company has no significant guarantee

2.In the report period, the Company kept as custody RMB 9.2 million equity of Shenzhen

New Century Drinking Water Technology Co., Ltd. held by Shenzhen Shengzuo Industry Co., Ltd. and the custody expense was 80% of profit dividend of the equity, namely RMB 2,060,800. In addition, the Company neither had kept as custody, contracted and lease assets of other companies and vice visa.

3.In the report period, the Company neither had entrusted financing nor entrusted loan.

4.In the report period or carrying down to the report period, the Company and the shareholders holding over 5% equity had no commitment events.

5.The Certified Public Accountants engaged by the Company was still Shenzhen Dahua Tiancheng Certified Public Accountants and the audit expense paid to the Certified Public Accountants in the report year was RMB 0.6 million.

6.Because the Company occurred many lawsuits in 2001 and the accumulated amount reached the requirement of disclosure, but the Company did not implement the liability of information disclosure after knowing the events, Shenzhen Stock Exchange made the decision of internal circling criticism on Jan.31, 2002. In addition,

in the report period, the Company, the directors of the Company and senior executives has not been checked by CSRC, has no administrative punishment and circling criticism by CSRC and also has not been publicly criticized by SSE.

## X. FINANCIAL REPROT

**Report of the auditors to the members of**

**Guangdong Sunrise Holdings Company Limited**

*(A joint stock limited company incorporated in the People's Republic of China)*

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We have audited the financial statements on pages 2 to 26, which are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about 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 principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In forming our opinion, we have considered the disclosures made in note 2 to the financial statements concerning the adequacy of the going concern basis as adopted in the financial statements. The Group has significant financial burdens on short-term repayment obligations (note 17) and there are large amounts of potential liabilities from court action in relation to the guarantees given by the Group (note 25). As explained in note 2 to the financial statements, the validity of the going concern basis depends upon the external funding being made available to meet the Group's financial obligations that have been due and overdue. The board of directors believes that after the funding the Group will be able to meet its future working capital requirements. Accordingly the financial statements have been prepared on a going concern basis and do not include any adjustments that would result from the failure to obtain such funding. We consider that appropriate disclosures have been made. However, in view of the significant impact on the financial statements in relation to the possibility to raise sufficient working capital funds, there will be probable impact on the going concern basis.

Because of the probable impact on the going concern basis, we are unable to form an opinion as to whether the financial statements give a true and fair view of the Group as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

**K. C. Oh & Company**
**Certified Public Accountants**

**Hong Kong : April 16, 2003**

**Guangdong Sunrise Holdings Company Limited**

## Consolidated income statement for the year ended December 31, 2002

| | Note | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|---|
| **Turnover** | 5 | 6,712 | 514,193 |
| **Cost of sales** | | ( 1,457 ) | ( 450,171 ) |
| **Gross profit** | | 5,255 | 64,022 |
| **Other incomes** | | 5,939 | 3,444 |
| **Distribution costs** | | ( 4,721 ) | ( 8,792 ) |
| **Administrative costs** | | ( 356,410 ) | ( 296,633 ) |
| **Other operating expenses** | | ( 6,528 ) | ( 37,823 ) |
| **Operating loss** | | ( 356,465 ) | ( 275,782 ) |
| **Finance costs** | | ( 39,980 ) | ( 20,450 ) |
| **Abnormal items** | 6 | ( 136,572 ) | ( 724,294 ) |
| **Share of results from associates** | | ( 7,408 ) | ( 13,716 ) |
| **Loss before taxation** | 7 | ( 540,425 ) | ( 1,034,242 ) |
| **Taxation** | 8 | ( 26 ) | ( 5,356 ) |
| **Loss after taxation** | | ( 540,451 ) | ( 1,039,598 ) |
| **Minority interests** | | 26 | ( 12,160 ) |
| **Loss for the year** | | ( 540,425 ) | ( 1,051,758 ) |
| **Loss per share** | | RMB(1.874) | RMB(3.647 ) |

The calculation of the basic loss per share is based on the current year's loss of RMB540,425,000 (2001 - RMB1,051,758,000) attributable to the shareholders and on the weighted average number of 288,420,000 shares in issue during the year.

## GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED

## Consolidated balance sheet as at December 31, 2002

| | Note | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 29,356 | 38,806 |
| Interests in unconsolidated subsidiaries | 11 | ( 3,906 ) | 8,356 |
| Interests in associates | 12 | 46,636 | 104,182 |
| Long-term investments | 13 | 112,296 | 54,503 |
| | | 184,382 | 205,847 |
| **Current assets** | | | |
| Inventories | 14 | 2,192 | 62,872 |
| Account receivables | 15 | - | 37,563 |
| Other receivables and prepayments | 16 | 2,295 | 114,863 |
| Cash and bank balances | | 1,858 | 20,159 |
| | | 6,345 | 235,457 |
| **Current liabilities** | | | |
| Bank and other loans | 17 | ( 653,893 ) | ( 709,902 ) |
| Account payables | 18 | - | ( 3,594 ) |
| Other payables and accrued charges | 19 | ( 1,061,753 ) | ( 712,233 ) |
| Taxation payable and provision for deferred tax | | ( 2 ) | ( 73 ) |
| | | ( 1,715,648 ) | ( 1,425,802 ) |
| **Net current liabilities** | | ( 1,709,303 ) | ( 1,190,345 ) |
| **Minority interests** | | ( 294 ) | ( 320 ) |
| **Total assets less total liabilities** | | ( 1,525,215 ) | ( 984,818 ) |
| **Capital and reserves** | | | |
| Share capital | 20 | 288,420 | 288,420 |
| Reserves | 21 | ( 1,813,635 ) | ( 1,273,238 ) |
| **Shareholders' equity** | | ( 1,525,215 ) | ( 984,818 ) |

**The financial statements on pages 2 to 26 were approved and authorised for issue by the board of directors on April 16, 2003 and are signed on its behalf by :**

| | |
|---|---|
| **Director** | **Director** |

## GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED

**Consolidated statement of changes in equity for the year ended December 31, 2002**

| | Share capital RMB'000 | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Discretionary surplus reserve RMB'000 | Accumulated loss RMB'000 | Dividend reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| As at January 1, 2001 | 288,420 | 298,283 | 78,894 | 16,789 | 39,125 | ( 655,032 ) | 12,488 | 78,967 |
| Loss for the year of 2001 | - | - | - | - | - | ( 1,051,758 ) | - | ( 1,051,758 ) |
| Dividend paid | - | - | - | - | - | - | ( 12,488 ) | ( 12,488 ) |
| Provision for diminution in value | - | 461 | - | - | - | - | - | 461 |
| Appropriation for the year | - | - | - | 1,496 | 1,496 | ( 2,992 ) | - | - |
| As at December 31, 2001 | 288,420 | 298,744 | 78,894 | 18,285 | 40,621 | ( 1,709,782 ) | - | ( 984,818 ) |
| As at January 1, 2002 | 288,420 | 298,744 | 78,894 | 18,285 | 40,621 | ( 1,709,782 ) | - | ( 984,818 ) |
| Loss for the year of 2002 | - | - | - | - | - | ( 540,425 ) | - | ( 540,425 ) |
| Difference arising from renovation work on staff housing | - | - | - | 28 | - | - | - | 28 |
| As at December 31, 2002 | 288,420 | 298,744 | 78,894 | 18,313 | 40,621 | ( 2,250,207 ) | - | ( 1,525,215 ) |

**GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED**

**Consolidated cash flow statement for the year ended December 31, 2002**

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Loss before taxation | ( 540,425 ) | ( 1,034,242 ) |
| **Adjustment items :** | | |
| Interest income | ( 13 ) | ( 13,738 ) |
| Interest expense | 40,024 | 41,027 |
| Depreciation | 1,967 | 2,641 |
| Debt restructuring income | - | ( 19,996 ) |
| Provision for loss on guarantees | 303,963 | 412,857 |
| (Profit)/loss on disposal of property, plant and equipment | ( 108 ) | 625 |
| Deemed disposal gain on a subsidiary | - | ( 476 ) |
| Loss on disposal of subsidiaries | 5,981 | - |
| Reversal for loss on monitory interests | ( 9,859 ) | - |
| Increase in interests in unconsolidated subsidiaries | ( 24,966 ) | ( 56,679 ) |
| Impairment loss provision on unconsolidated subsidiaries | 24,845 | 13,017 |
| Profit on disposal of associates | ( 25,256 ) | - |
| Impairment loss provision/(reversal) on interests in associates | ( 8,466 ) | 17,856 |
| Share of results from associates | 7,408 | 13,716 |
| Impairment loss provision on long-term investments | - | 23,860 |
| Provision/(reversal) for inventory obsolescence | ( 61,127 ) | 80,992 |
| Inventories written off | - | 63,810 |
| Provision for doubtful debts on account receivables reversed | ( 7,340 ) | ( 40,728 ) |
| Provision/(reversal) for doubtful debts on other receivables and prepayments | ( 73,108 ) | 169,168 |
| Account payables waived | ( 13,061 ) | - |
| Net operating cash outflow before movements in working capital | ( 379,541 ) | ( 326,290 ) |
| Increase in amounts due to unconsolidated subsidiaries | 826 | 3,080 |
| Increase/(decrease) in amounts due to long-term investments | ( 76,925 ) | 9,963 |
| Decrease in inventories | 61,127 | 138,162 |
| Decrease in account receivables | 42,000 | 35,111 |
| Decrease in other receivables and prepayments | 142,933 | 278,695 |
| Decrease in account payables | - | ( 95,669 ) |
| Increase/(decrease) in other payables and accrued charges | 251,693 | ( 53,410 ) |
| Cash inflow/(outflow) from operating activities before interest and tax payments | 42,113 | ( 10,358 ) |
| Interest paid | ( 40,024 ) | ( 41,027 ) |
| Corporate and profits tax paid | ( 97 ) | ( 8,148 ) |
| **Net cash inflow/(outflow) from operating activities** | 1,992 | ( 59,533 ) |

*(TO BE CONT'D)*

**GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED**

**Consolidated cash flow statement for the year ended December 31, 2002**

*(cont'd)*

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| **Net cash inflow/(outflow) from operating activities** | 1,992 | ( 59,533 ) |
| **Investing activities** | | |
| Interest received | 13 | 21,492 |
| Purchases of property, plant and equipment | ( 27 ) | ( 211 ) |
| Proceeds from disposal of property, plant and equipment | 361 | 571 |
| Decrease in properties held under/for development | - | 4,375 |
| Net cash outflow from disposal of subsidiaries | ( 106,315 ) | - |
| Decrease in investments in associates | 83,860 | 18,283 |
| Increase in long-term investments | 19,018 | - |
| **Net cash inflow/(outflow) from investing activities** | ( 3,090 ) | 44,510 |
| **Financing activities** | | |
| Dividend paid | - | ( 12,448 ) |
| Bank and other loans repaid | ( 17,203 ) | ( 102,283 ) |
| Increase in capital reserve | - | 461 |
| **Net cash outflow from financing activities** | ( 17,203 ) | ( 114,270 ) |
| **Decrease in cash and cash equivalents** | ( 18,301 ) | ( 129,293 ) |
| **Cash and cash equivalents as at beginning of the year** | 20,159 | 149,452 |
| **Cash and cash equivalents as at end of the year** | 1,858 | 20,159 |

***Cash flows from financing***

| | Bank and other loans RMB'000 | Minority interests RMB'000 |
|---|---|---|
| Balance as at beginning of the year | 709,902 | 320 |
| Cash outflow from financing | ( 17,203 ) | - |
| Disposal of subsidiaries | ( 27,300 ) | 9,859 |
| Reduced by subsidiaries being unconsolidated | ( 11,506 ) | - |
| Minority interests' share of results | - | ( 9,885 ) |
| Balance as at end of the year | 653,893 | 294 |

**GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED**

**Notes to the financial statements for the year ended December 31, 2002**

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## 1. Corporate information

Guangdong Sunrise Holdings Company Limited (the "Company") is established in the People's Republic of China (the "PRC") as a joint stock limited company. On June 13, 2002, the name of the Company has been changed from "Shenzhen Lionda Holdings Company Limited" to "Guangdong Sunrise Holdings Company Limited". The principal activity of the Company is investment holding and the principal activities of the subsidiaries and associates (which together with the Company comprise the "Group") are set out in note 3.

## 2. Basis of account preparation

The consolidated financial statements have been prepared in accordance with the International Accounting Standards ("IAS") issued by the International Federation of Accountants. These accounting standards differ from those used in the preparation of the PRC statutory financial statements, which are prepared in accordance with the PRC Accounting Standards. To conform to IAS, adjustments have been made to the PRC statutory financial statements. Details of the impact of such adjustments on the net asset value as at December 31, 2002 and on the operating results for the year then ended are included in note 27 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention.

During the year, the Group had critically reviewed the fair value with respect to diminution in value of inventories, aged receivables with recoverability problem and contingent liabilities arising from corporate guarantees. Adequate provisions had been made in this respect. As at December 31, 2002, the Group's accumulated loss amounted to RMB2,250,207,000. Moreover, the Group had outstanding liabilities on bank and other loans, account payables and other payables totalling RMB1,715,646,000. The Group is now seeking external financing and the management believes that new funding can be raised in need of future working capital requirements. In view of this, the financial statements are prepared on going concern basis.

## 3. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries made up to December 31 each year. Except for those subsidiaries not consolidated for the reasons stated below, all significant inter-company transactions and balances within the Group have been eliminated on consolidation.

## 3. Basis of consolidation (cont'd)

(a) Subsidiaries

A SUBSIDIARY IS A COMPANY IN WHICH THE COMPANY HOLDS, DIRECTLY OR INDIRECTLY, MORE THAN 50% OF THE EQUITY INTEREST AS A LONG-TERM INVESTMENT AND/OR HAS THE POWER TO CAST THE MAJORITY OF VOTES AT MEETINGS OF THE BOARD OF DIRECTORS/MANAGEMENT COMMITTEE.

THE DETAILS OF THE PRINCIPAL SUBSIDIARIES ARE AS FOLLOWS :

| Name | Place of establishment/ operation | Attributable equity interest | Principal activity |
|---|---|---|---|
| Shanghai Lionda Industrial Co. Ltd. | PRC | 100% | Trading in light industrial products |
| Shenzhen Lionda Property Management Co. Limited | PRC | 100% | Property management, trading of foods and motor car spare parts |
| Shenzhen Lionda Junk Trading Market Co. Limited | PRC | 51% | Trading of junk and wireless communication products |
| Shenzhen Lionda Development Co. Limited | PRC | 100% * | Property development and management |
| Shenzhen Lionda Light Textile Chemical Industrial Co. Limited | PRC | 100% * | Trading, import and export |

| | | | |
|---|---|---|---|
| Shenzhen Paper Making Co. | PRC | 100% * | Manufacturing paper products and printing machinery |
| Shenzhen Lionda Food Industrial Co. Limited | PRC | 100% * | Production of fruit jelly, jelly sweets and high strength agar |
| Shenzhen Lionda Materials Import & Export Co., Limited | PRC | 100% * | Import and export of printing material, machinery, chemical products, clothing, silks and shoes |
| Shenzhen Lucky C. & B. Industrial Co. Limited | PRC | 100% * | Design and production of luggage cases |

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2002
*(cont'd)*

## 3. Basis of consolidation (cont'd)

(a) Subsidiaries (cont'd)

THE DETAILS OF THE PRINCIPAL SUBSIDIARIES ARE AS FOLLOWS :

| Name | Place of establishment/ operation | Attributable equity interest | Principal activity |
|---|---|---|---|
| Shenzhen Lionda Electrical Equipment Co. Limited | PRC | 100% * | Production of vacuum flasks and home electrical fans |
| Shenzhen Paper Manufacturing & Processing Factory | PRC | 100% * | Paper processing |
| Shenzhen Lionda Electrical Manufacturing Factory | PRC | 100% * | Production of electric oven and metal products |
| Shenzhen Lionda Hunan Branch | PRC | 100% * | Import and export trading |
| Shenzhen Xin Qi Beverage Co. Ltd. | PRC | 75% * | Production of fruit juice products and pudding |
| Shanghai Lioyin Property Development Co. Ltd. | PRC | 55% * | Property development and management and trading of construction materials |

** NOT REQUIRED TO BE CONSOLIDATED AS THE SUBSIDIARY HAS CEASED THE*

*BUSINESS, IS UNDER LIQUIDATION OR IS UNABLE TO TRANSFER FUNDS TO THE PARENT BECAUSE OF ITS OPERATIONS UNDER LONG-TERM RESTRICTIONS*

## 3. Basis of consolidation (cont'd)

(b) Associates

An associate is a company, not being a subsidiary, in which the Company holds, directly or indirectly, not less than 20% or not more than 50% equity interest as a long-term investment and is able to exercise significant influence on this company. Investment in associates is accounted for by equity method. Share of results from associates represents the Group's share of post-acquisition profit/loss by the associates during the year.

The details of the principal associates are as follows :

| Name | Place of establishment/ operation | Attributable equity interest | Principal activity |
|---|---|---|---|
| SHENZHEN JIALU HOTEL | PRC | 50% | HOTEL OPERATIONS |
| YUESHEN LIGHT INDUSTRY TRADING CO. | PRC | 50% | IMPORT AND EXPORT OF FOOD AND TEXTILES |
| SHENZHEN SILVERPEARL PLASTIC PRODUCTS CO. LTD. | PRC | 45% | PRODUCTION OF PLASTIC FOAM PRODUCTS, ETC. |
| HUNAN SHENLI SPECIAL ALLOY CO. LTD. | PRC | 45% | PRODUCTION OF HARD ALLOY WARE |
| SHENZHEN GOLDEN BELL | PRC | 40% | PRODUCTION OF DRY BATTERIES |

BATTERIES CO. LTD. AND ELECTRONIC

PRODUCTS

SHENZHEN YINZHIZUO CLUB PRC 40% PROVISION OF LAW

CONSULTANT

SERVICE AND

RESTAURANT

SHENZHEN TAIYANG TCCP PRC 34% PRODUCTION,

TRANSPORTATION

CO. LTD. AND INSTALLATION OF

STEEL,

CONCRETE TUBE

SHENZHEN LIONDA INDUSTRIAL PRC 32% IMPORT AND

EXPORT TRADING

TRADING CO. LTD. AND PROPERTY

MANAGEMENT

SHENZHEN LIONDA BAO PRC 30% TRADING

SHUI TRADING CO. LTD.

**GUANGDONG SUNRISE HOLDINGS COMPANY LIMITED**

**Notes to the financial statements for the year ended December 31, 2002**
*(cont'd)*

## 3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

The details of the principal associates are as follows :

| Name | Place of establishment/ operation | Attributable equity interest | Principal activity |
|---|---|---|---|
| SHENZHEN ANMIZ WATCH & CLOCK CO. LTD. | PRC | 30% | PRODUCTION OF WATCHES, CLOCK PARTS, COUNTERS AND METERS |
| sHENZHEN GAOKEDA ELECTRONIC CO. LTD. | PRC | 30% | PRODUCTION OF HDSL TRANSMISSION LINES |
| SHANGHAI QINGPU YINDA PROPERTY DEVELOPMENT CO. | PRC | 30% | PROPERTY DEVELOPMENT |
| SHENZHEN GOODYEAR ENTERPRISE HOLDINGS CO. LTD. | PRC | 26.54% | PACKAGING |
| SHENZHEN GUANGHUA INSULATING GLASS ENGINEERING CO. LTD. | PRC | 25% | PRODUCTION AND INSTALLATION OF INSULATING GLASS |
| SHENZHEN ENAMELWARE ENTERPRISE CO. LTD. | PRC | 20.33% | PRODUCTION OF ENAMELWARE |

| | | | |
|---|---|---|---|
| SHENZHEN JIANDA MACHINERY CO. LTD. | PRC | 20% | PRODUCTION OF PLASTIC INJECTION MACHINERY, ETC. |
| SHENZHEN DONG XIANG ELECTRONIC ENTERPRISE CO. LTD. | PRC | 11% | TRADING OF ELECTRONIC EQUIPMENT AND PARTS |
| BALTIC SEA COMMERCIAL CENTRE | LATVIA | 51% * | HOTEL OPERATION AND COMMERCIAL SERVICE |

* *NO CONTROLLING INTEREST*

(c) Related companies

A RELATED COMPANY IS A COMPANY, NOT BEING A SUBSIDIARY OR AN ASSOCIATE, IN WHICH THE MAJOR SHAREHOLDERS OR DIRECTORS OF THE COMPANY OR ITS GROUP COMPANIES HAVE A BENEFICIAL INTEREST THEREIN, OR ARE IN A POSITION TO EXERCISE SIGNIFICANT INFLUENCE OVER THAT COMPANY.

## 4. Principal accounting policies

(a) Property, plant, equipment and depreciation

Such assets are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, are charged to the consolidated income statement in the period in which they are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditures are capitalised as an additional cost of the assets.

When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any profit or loss resulting from their disposal is included in the consolidated income statement.

Depreciation is provided to write off the cost of depreciable assets, after taking into account of their estimated residual values, over their estimated useful lives on a straight-line basis.

The estimated useful lives of property, plant and equipment are as follows :

| | |
|---|---|
| Leasehold land under | |
| - Long-term lease | Nil |
| - Medium or short-term lease | Over the remaining lease term |
| Buildings | 20 years |
| Plant and machinery | 5 years |
| Office equipment | 5 years |
| Motor vehicles | 5 years |

(b) Construction in progress

Construction in progress represents properties under construction and equipment purchased prior to installation and is stated at cost. Cost comprises direct costs, attributable overheads and where applicable finance expenses arising from borrowings used specifically to finance the construction of the properties and the acquisition of the equipment until the construction or installation is completed.

The cost of completed construction work is transferred to appropriate category of property, plant and equipment, and depreciation commences when the assets are ready for their intended use.

**4. Principal accounting policies (cont'd)**

(c) Investments

Investments, whether they are held on a long-term or a short-term basis, are stated at cost less provision for any permanent diminution in value considered necessary by the directors.

Income from investments is accounted for to the extent of dividend and/or interest income received or receivable.

(d) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, is calculated on weighted average basis. Net realisable value represents the estimated selling price less all estimated cost to completion and cost to be incurred in marketing, selling and distribution.

Properties held for sale are treated as inventories and are stated at the lower of cost and net realisable value. Cost comprises land cost, construction cost, direct attributable overheads and interest cost capitalised during the period of development. Net realisable value represents the estimated selling price less related expenses.

(e) Revenue recognition

Revenue is recognised when it is probable that the benefits will flow to the Group and when the revenue can be measured reliably.

Sales of goods

- Sales of goods are recognised when the goods are delivered and the title has passed.
- Sales of properties under development are recognised when the properties developed for sale are sold in advance of completion and the outcome of projects can be ascertained with reasonable certainty by reference to the construction progress. Profit is recognised over the course of the development after taking into account of allowance for contingencies.
- Sales of properties are recognised when all the conditions of sale have been met and the risks and rewards of ownership have been transferred to the buyer.

Interest income from bank deposit is accrued on a time proportion basis on the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the shareholders' right to receive payment is established.

**4. Principal accounting policies (cont'd)**

(f) Capitalisation of borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Borrowing costs not eligible for capitalisation are recognised as an expense in the period in which they are incurred. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

(g) Foreign currency transactions

The PRC Group companies maintain their books and records in Renminbi. Foreign currency transactions are translated into Renminbi at the applicable rates of exchange prevailing at the first of January every year. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the applicable rates of exchange prevailing at the balance sheet date. Exchange differences arising from changes of exchange rates subsequent to the dates of transactions are included in the determination of the current year's results.

(h) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily available to known amounts of cash and which are subject to an insignificant risk of changes in value.

(i) Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Any impairment loss arising is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

## 4. Principal accounting policies (cont'd)

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation subsequent to a past event, which will result in a probable outflow of economic benefits that can be reasonably estimated.

## 5. Turnover

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Sale of merchandises | - | 477,582 |
| Sale of properties held for sale | - | 36,611 |
| Takings from catering services | 6,712 | - |
| | 6,712 | 514,193 |

## 6. Abnormal items

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Impairment loss provision on unconsolidated subsidiaries | ( 24,845 ) | ( 13,017 ) |
| Loss on disposal of subsidiaries | ( 5,981 ) | - |
| Impairment loss (provision)/reversal on interests in associates | 8,466 | ( 17,856 ) |
| Profit on disposal of associates | 25,256 | - |
| Impairment loss provision on long-term investments | - | ( 23,860 ) |
| (Provision)/reversal for inventory obsolescence | 61,127 | ( 80,992 ) |
| Inventories written off | - | ( 63,810 ) |
| Provision for doubtful debts on account receivables reversed | 7,340 | 40,728 |
| (Provision)/reversal for doubtful debts on other receivables and prepayments | 73,108 | ( 169,168 ) |
| Provision for loss on guarantees | ( 303,963 ) | ( 412,857 ) |
| Account payables waived | 13,061 | - |
| (Provision)/reversal for loss on minority interests | 9,859 | ( 3,458 ) |
| Debt restructuring income - liabilities waived | - | 19,996 |
| | ( 136,572 ) | ( 724,294 ) |

## 7. Loss before taxation

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| The Group's loss before taxation is arrived at after charging : | | |
| Auditors' remuneration | 600 | 700 |
| Directors' emoluments | 291 | 649 |
| Depreciation | 1,967 | 2,641 |
| Loss on disposal of property, plant and equipment | - | 625 |
| Interest expense | 40,024 | 41,027 |
| Staff costs | 3,146 | 3,537 |
| Contributions to retirement scheme | 197 | 466 |
| And after crediting : | | |
| Interest income | 13 | 13,738 |
| Gain on disposal of property, plant and equipment | 108 | - |
| Deemed disposal gain on a subsidiary | - | 476 |
| Rental income | - | 944 |

## 8. Taxation

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Income tax | | |
| - Company and subsidiaries | 26 | 5,356 |
| - Associates | - | - |
| | 26 | 5,356 |

The amount of taxation in the consolidated balance sheet represents PRC income tax provision less tax paid during the year.

## 9. aPPROPRIATIONS

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Transfer to reserves | | |
| - Statutory surplus reserve | - | - |
| - Statutory public welfare fund | 28 | 1,496 |
| - Discretionary surplus reserve | - | 1,496 |
| | 28 | 2,992 |

PURSUANT TO THE RELEVANT LAWS AND REGULATIONS OF THE PRC, A JOINT STOCK LIMITED COMPANY IS REQUIRED TO MAKE CERTAIN APPROPRIATIONS TO RESERVES FROM ITS NET PROFIT AFTER TAXATION DETERMINED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS.

THE PROFIT DISTRIBUTABLE TO SHAREHOLDERS IS CALCULATED BASED ON THE LOWER OF THE AGGREGATE OF THE CURRENT YEAR'S NET PROFIT AFTER TAXATION (AFTER TRANSFERS TO STATUTORY SURPLUS RESERVE AND STATUTORY PUBLIC WELFARE FUND) AND THE RETAINED PROFIT BROUGHT FORWARD, PREPARED UNDER THE PRC ACCOUNTING STANDARDS OR INTERNATIONAL ACCOUNTING STANDARDS.

THE DIRECTORS DO NOT PROPOSE THE PAYMENT OF DIVIDEND IN RESPECT OF THE YEAR ENDED DECEMBER 31, 2002.

*(cont'd)*

## 10. Property, plant and equipment

| | Land and buildings RMB'000 | Office equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| Cost | | | | |
| As at January 1, 2002 | 50,056 | 5,897 | 12,855 | 68,808 |
| Additions | - | 27 | - | 27 |
| Decrease on disposal of subsidiaries | - | - | ( 741 ) | ( 741 ) |
| Decrease arising from not consolidating certain subsidiaries | ( 8,336 ) | ( 1,560 ) | ( 2,664 ) | ( 12,560 ) |
| Disposals | ( 223 ) | ( 60 ) | ( 756 ) | ( 1,039 ) |
| As at December 31, 2002 | 41,497 | 4,304 | 8,694 | 54,495 |
| Accumulated depreciation | | | | |
| As at January 1, 2002 | ( 14,140 ) | ( 4,664 ) | ( 11,198 ) | ( 30,002 ) |
| Additions | ( 1,463 ) | ( 155 ) | ( 349 ) | ( 1,967 ) |
| Decrease on disposal of subsidiaries | - | - | 520 | 520 |
| Decrease arising from not consolidated certain subsidiaries | 2,004 | 1,031 | 2,489 | 5,524 |
| Disposals | 46 | 81 | 659 | 786 |
| As at December 31, 2002 | ( 13,553 ) | ( 3,707 ) | ( 7,879 ) | ( 25,139 ) |
| Net book value | | | | |
| As at December 31, 2002 | 27,944 | 597 | 815 | 29,356 |
| As at December 31, 2001 | 35,916 | 1,233 | 1,657 | 38,806 |

**Notes to the financial statements for the year ended December 31, 2002**
*(cont'd)*

## 11. Interests in unconsolidated subsidiaries

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Cost of unconsolidated subsidiaries (*) | 46,808 | 32,671 |
| Impairment loss provision | ( 46,808 ) | ( 21,235 ) |
| | - | 11,436 |
| Amounts due to unconsolidated subsidiaries (*) | ( 3,906 ) | ( 3,080 ) |
| | ( 3,906 ) | 8,356 |

(*) *Certain subsidiaries of the Group were excluded from consolidation because they were dormant, held temporarily by the Group with a view to their subsequent disposal in the near future or operating under long-term restrictions that significantly impaired their abilities to transfer funds to their parent. In the opinion of the directors, their exclusion from consolidation would not have a material impact on the overall presentation of the financial statements of the Group as a whole.*

## 12. Interests in associates

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Share of net assets of associates | 61,197 | 127,209 |
| Impairment loss provision | ( 14,561 ) | ( 23,027 ) |
| | 46,636 | 104,182 |

## 13. Long-term investments

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| "A" shares of companies listed in the PRC, at cost | 10,000 | 10,000 |
| Other unlisted equity investments, at cost | 68,477 | 87,609 |
| | 78,477 | 97,609 |
| Impairment loss provision | ( 33,143 ) | ( 33,143 ) |

| | | |
|---|---|---|
| | 45,334 | 64,466 |
| Amounts due from/(to) other long-term investments | 66,962 | ( 9,963 ) |
| | 112,296 | 54,503 |

**Notes to the financial statements for the year ended December 31, 2002**
*(cont'd)*

## 14. Inventories

| | 2002<br>RMB'000 | 2001<br>RMB'000 |
|---|---|---|
| Raw materials | 192 | 192 |
| Finished goods | 1,000 | 6,281 |
| Properties held for sale | 22,913 | 139,439 |
| | 24,105 | 145,912 |
| Provision for inventory obsolescence | ( 21,913 ) | ( 83,040 ) |
| | 2,192 | 62,872 |

## 15. Account receivables

| | 2002<br>RMB'000 | 2001<br>RMB'000 |
|---|---|---|
| Amount receivables | - | 44,903 |
| Provision for doubtful debts | - | ( 7,340 ) |
| | - | 37,563 |

As at December 31, 2002, the aging of amount receivables is analyzed as follows :

| | 2002<br>RMB'000 | 2001<br>RMB'000 |
|---|---|---|
| Within one year | - | 38,706 |
| Over three years | - | 6,197 |
| | - | 44,903 |

## 16. Other receivables and prepayments

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Prepayments | 458 | 517 |
| Dividend receivable | - | 1,932 |
| Other receivables | 133,937 | 317,622 |
| | 134,395 | 320,071 |
| Provision for doubtful debts | ( 132,100 ) | ( 205,208 ) |
| | 2,295 | 114,863 |

As at December 31, 2002, the aging of other receivables and prepayments is analyzed as follows :

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Within one year | 458 | 84,161 |
| Over one year but within two years | - | 6,989 |
| Over two years but within three years | - | 18,510 |
| Over three years | 133,937 | 210,411 |
| | 134,395 | 320,071 |

## 17. Bank and other loans

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Bank loans - unsecured | 493,375 | 518,271 |
| Bank loans - secured | 33,000 | 33,000 |
| Other loans | 127,518 | 158,631 |
| | 653,893 * | 709,902 |

* This comprised overdue amounts of RMB649,395,000.

## 18. Account payables

As at December 31, 2002, the aging of account payables is analyzed as follows :

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Within one year | - | 3,515 |
| Over one year but within three years | - | 50 |
| Over three years | - | 29 |
| | - | 3,594 |

## 19. Other payables and accrued charges

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Amounts received in advance | 137 | 3,900 |
| Accrued expenses | 193,233 | 155,765 |
| Anticipated commitments and liabilities | 721,904 | 412,857 |
| Accrued wages | - | 43 |
| Accrued staff welfare | 220 | 2,691 |
| Others | 146,259 | 136,977 |
| | 1,061,753 | 712,233 |

## 20. Share capital

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Registered, issued and fully paid, | | |
| at par value of RMB1 each | | |
| 208,560,000 (2001 - 208,560,000) domestic shares | 208,560 | 208,560 |
| 40,260,000 (2001 - 40,260,000) "A" shares | 40,260 | 40,260 |
| 39,600,000 (2001 - 39,600,000) "B" shares | 39,600 | 39,600 |
| | 288,420 | 288,420 |

*(cont'd)*

## 21. Reserves

| | Capital reserve RMB'000 | Statutory surplus reserve RMB'000 | Statutory public welfare fund RMB'000 | Discretionary surplus reserve RMB'000 | Accumulated loss RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| As at January 1, 2002 | 298,744 | 78,894 | 18,285 | 40,621 | ( 1,709,782 ) | ( 1,273,238 ) |
| Movements | | | | | | |
| Loss for the year | - | - | - | - | ( 540,425 ) | ( 540,425 ) |
| Difference arising from renovation work on staff housing | - | - | 28 | - | - | 28 |
| As at December 31, 2002 | 298,744 | 78,894 | 18,313 | 40,621 | ( 2,250,207 ) | ( 1,813,635 ) |

* According to the Company's Articles of Association and the PRC's relevant laws and policies, the Company is required to make a transfer at the rate of 10% from the profit after taxation, determined in accordance with the PRC accounting standards, of the Company to the statutory surplus reserve until the reserve balance has reached 50% of the registered capital of the Company. The Company is also required to transfer 5% to 10% from the profit after taxation to the statutory public welfare fund.

The statutory surplus reserve and the capital reserve may be applied only for the following purposes :

i the statutory surplus reserve may be used to make up loss; and

ii a reserve may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, but when the statutory surplus reserve is converted into share capital, the amount remaining in the reserve shall be no less than 25% of the new increased registered capital.

The statutory public welfare fund shall only be applied for the collective welfare of the Company's employees; and upon utilisation, an amount equal to expenditure spent on the collective staff welfare shall be transferred from the statutory public welfare fund to discretionary surplus reserve.

Prior to making up the Company's loss and the relevant appropriations to the statutory surplus reserve and the statutory public welfare fund, no dividend may be paid.

## 22. Disposal of subsidiaries

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Property, plant and equipment | 221 | - |
| Inventories | 20,855 | - |
| Account receivables | | - |
| Prepayments, deposits and other receivables | 14,745 | - |
| Cash and bank balances | 11,603 | - |
| Account payables | ( 29 ) | - |
| Other payables and accrued expenses | ( 118,685 ) | - |
| Short-term bank loans | ( 27,300 ) | - |
| | ( 98,590 ) | - |
| Minority interests | 9,859 | - |
| Loss on disposal of subsidiaries | ( 5,981 ) | - |
| Satisfied by cash | ( 94,712 ) | - |

## 23. Related party transactions

(i) Loan guarantee service charge and interest income

During the year, the Group did not receive service charge or interest income (2001 - RMB6,764,774) from its related company, Shenzhen China Bicycle Company (Holdings) Limited in relation to the loan guarantees made.

(ii) Guarantees

As at December 31, 2002, the Group had guarantees on banking facilities granted to related companies amounting to RMB1,835,956,159 (2001 - RMB1,338,444,150).

## 24. Pledge of assets

As at December 31, 2002, the Group had pledged its buildings with a cost of RMB13,000,000 (2001 - RMB17,000,000) and 11,968,590 (2001 - 40,308,590) "A" shares of Shenzhen China Bicycle Company (Holdings) Limited to banks to secure general banking facilities.

## 25. Contingent liabilities

As at December 31, 2002, the Group had the following contingent liabilities :

| | 2002 RMB'000 | 2001 RMB'000 |
|---|---|---|
| Potential liabilities from court action in relation to the guarantees given by the Group | 229,357 | 727,498 |
| Guarantees to financial institutions in respect of the Group's facilities | 823,125 | 1,652,879 |
| | 1,052,482 | 2,380,377 |

## 26. Ultimate holding company

In the opinion of the directors, the ultimate holding company of the Group is Shenzhen Investment Administrative Company, a state-owned enterprise established in the PRC.

### 27. Impact on loss attributable to shareholders and net asset value as reported by the PRC Certified Public Accountants

| | Loss attributable to shareholders RMB'000 | Net asset value RMB'000 |
|---|---|---|
| As reported by PRC Certified Public Accountants | ( 566,485 ) | ( 1,525,165 ) |
| Adjustments to conform to IAS | | |
| Deferred assets reversed | ( 13 ) | ( 44 ) |
| Adjustment on minority interests arising from disposal of subsidiaries | 9,859 | - |
| Adjustment on interest in associates arising from their disposal | 3,153 | - |
| Account payables waived | 13,061 | - |
| Prior year adjustment on interest in an associate | - | ( 198 ) |
| Housing welfare fund transfer | - | 192 |
| As restated in conformity with IAS | ( 540,425 ) | ( 1,525,215 ) |

## 28. FINANCIAL INSTRUMENTS

FINANCIAL ASSETS OF THE GROUP INCLUDE CASH AND BANK BALANCES, ACCOUNT RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS. FINANCIAL LIABILITIES INCLUDE BANK AND OTHER LOANS, ACCOUNT PAYABLES, OTHER PAYABLES AND ACCRUED CHARGES.

(A) CREDIT RISK

CASH AND BANK BALANCES : SUBSTANTIAL AMOUNTS OF THE GROUP'S CASH BALANCES ARE DEPOSITED WITH THE BANK OF CHINA, CHINA MERCHANTS BANK, SHENZHEN DEVELOPMENT BANK AND INDUSTRIAL AND COMMERCIAL BANK OF CHINA.

ACCOUNT RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS : THE GROUP DOES NOT HAVE A SIGNIFICANT EXPOSURE TO ANY INDIVIDUAL CUSTOMER OR COUNTERPART. THE MAJOR CONCENTRATIONS OF CREDIT RISK ARISE FROM EXPOSURES TO A SUBSTANTIAL NUMBER OF ACCOUNT RECEIVABLES THAT ARE MAINLY LOCATED IN THE PRC.

(B) FAIR VALUE

THE FAIR VALUE OF THE FINANCIAL ASSETS AND FINANCIAL LIABILITIES IS NOT MATERIALLY DIFFERENT FROM THEIR CARRYING AMOUNT.

THE CARRYING VALUE OF SHORT-TERM LOANS IS ESTIMATED TO APPROXIMATE ITS FAIR VALUE BASED ON THE BORROWING TERMS AND RATES OF SIMILAR LOANS.

FAIR VALUE ESTIMATES ARE MADE AT A SPECIFIC POINT IN TIME AND BASED ON RELEVANT MARKET INFORMATION AND INFORMATION ABOUT THE FINANCIAL INSTRUMENTS. THESE ESTIMATES ARE SUBJECTIVE IN NATURE AND INVOLVE UNCERTAINTIES ON MATTERS OF SIGNIFICANT JUDGEMENT,

AND THEREFORE CANNOT BE DETERMINED WITH PRECISION. CHANGES IN ASSUMPTIONS COULD SIGNIFICANTLY AFFECT THE ESTIMATES.

**29. LANGUAGE**

THE TRANSLATED ENGLISH VERSION OF FINANCIAL STATEMENTS IS FOR REFERENCE ONLY. SHOULD ANY DISAGREEMENT ARISE, THE CHINESE VERSION SHALL PREVAIL.

**30. COMPARATIVE FIGURES**

CERTAIN COMPARATIVE FIGURES HAVE BEEN RECLASSIFIED SO AS TO CONFORM TO THE CURRENT YEAR'S PRESENTATION.

## XI. DOCUMENTS AVAILABLE FOR REFERENCE

There is complete set of documents in the secretariat of the Board, which will be provided for reference to CSRC, Stock Exchange or shareholders:

1. Accounting statements carried with personal signatures and seals of legal representative, person in charge of the financial affairs and person in charge of handling accounting affairs.
2. Original of Auditors' Report carried with the seal of Certified Public Accountants as well as personal signatures and seals of certified public accountants;
3. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public on the newspapers designated by CSRC in the report period;
4. Original of 2002 Annual Report carried with personnel signature of the Chairman of the Board.

**Guangdong Sunrise Holdings Company Limited**

Chairman of Board: Yang Fenbo

April 16, 2003