

Guangdong Sunrise Holdings Company Limited

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

**Auditors' report and financial statements
for the year ended December 31, 2003**

Guangdong Sunrise Holdings Company Limited
(a joint stock limited company incorporated
in the People's Republic of China)

Contents	Pages
Report of the auditors	1
Consolidated income statement	2
Consolidated balance sheet	3
Consolidated statement of changes in equity	4
Consolidated cash flow statement	5 - 6
Notes to the financial statements	7 - 27

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)

We have audited the accompanying balance sheet of Guangdong Sunrise Holdings Company Limited as of December 31, 2003 and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements 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 18) and there are large amounts of potential liabilities from court action in relation to the guarantees given by the Group (note 28). 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 management 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 present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

K. C. Oh & Company
Certified Public Accountants

Hong Kong : March 26, 2004

Guangdong Sunrise Holdings Company Limited

Consolidated income statement for the year ended December 31, 2003

	Note	2003 RMB'000	2002 RMB'000
Turnover	5	77,268	6,712
Cost of sales		<u>(64,127)</u>	<u>(1,457)</u>
Gross profit		13,141	5,255
Other incomes		3,206	5,939
Distribution costs		(3,677)	(4,721)
Administrative costs		(26,802)	(356,410)
Other operating expenses		<u>-</u>	<u>(6,528)</u>
Operating loss		(14,132)	(356,465)
Finance costs		(32,192)	(39,980)
Exceptional items	6	57,616	(136,572)
Share of results from associates		<u>1,265</u>	<u>(7,408)</u>
Profit/(loss) before taxation	7	12,557	(540,425)
Taxation	8	<u>(59)</u>	<u>(26)</u>
Profit/(loss) after taxation		12,498	(540,451)
Minority interests		<u>(554)</u>	<u>26</u>
Profit/(loss) for the year		<u>11,944</u>	<u>(540,425)</u>
Earnings/(loss) per share		<u>RMB0.041</u>	<u>RMB(1.874)</u>

The calculation of the basic earnings/(loss) per share is based on the current year's profit of RMB11,944,000 (2002 - loss of RMB540,425,000) attributable to the shareholders and on the existing number of 288,420,000 shares in issue during the year.

Guangdong Sunrise Holdings Company Limited

Consolidated balance sheet as at December 31, 2003

		2003	Restated 2002
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	9	130,737	29,356
Construction in progress	10	1,811	18
Interests in unconsolidated subsidiaries	11	(5,169)	(3,906)
Interests in associates	12	9,466	46,636
Long-term investments	13	11,112	112,296
		<u>147,957</u>	<u>184,400</u>
Current assets			
Inventories	14	31,168	2,192
Account receivables	15	37,291	-
Other receivables and prepayments	16	128,264	2,277
Tax recoverable		458	-
Note receivables		630	-
Short-term investments		44	-
Cash and bank balances		<u>27,414</u>	<u>1,858</u>
		<u>225,269</u>	<u>6,327</u>
Total assets		<u><u>373,226</u></u>	<u><u>190,727</u></u>
Capital and reserves			
Share capital	17	288,420	288,420
Reserves		(1,832,876)	(1,844,873)
		<u>(1,544,456)</u>	<u>(1,556,453)</u>
Minority interests		<u>77,698</u>	<u>294</u>
Current liabilities			
Bank and other loans	18	629,689	653,893
Account payables		29,865	-
Other payables and accrued charges	19	1,177,550	1,092,991
Note payables		2,880	-
Tax payable		<u>-</u>	<u>2</u>
		<u>1,839,984</u>	<u>1,746,886</u>
Total equity and liabilities		<u><u>373,226</u></u>	<u><u>190,727</u></u>

The financial statements on pages 2 to 27 were approved and authorised for issue by the board of directors on March 26, 2004 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, 2003

	Share capital RMB'000	Reserves				Accumulated loss RMB'000	Total reserves RMB'000	Share capital and total reserves RMB'000
		Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Discretionary surplus reserve RMB'000			
As at January 1, 2002	288,420	298,744	78,894	18,285	40,621	(1,709,782)	(1,273,238)	(984,818)
- prior year adjustment								
- loss from letters of credit (note 26)	-	-	-	-	-	(31,238)	(31,238)	(31,238)
As restated	288,420	298,744	78,894	18,285	40,621	(1,741,020)	(1,304,476)	(1,016,056)
Loss for the year of 2002	-	-	-	-	-	(540,425)	(540,425)	(540,425)
Difference from renovation work on staff housing	-	-	-	28	-	-	28	28
As at December 31, 2002	<u>288,420</u>	<u>298,744</u>	<u>78,894</u>	<u>18,313</u>	<u>40,621</u>	<u>(2,281,445)</u>	<u>(1,844,873)</u>	<u>(1,556,453)</u>
As at January 1, 2003	288,420	298,744	78,894	18,313	40,621	(2,250,207)	(1,813,635)	(1,525,215)
- prior year adjustment								
- loss from letters of credit (note 26)	-	-	-	-	-	(31,238)	(31,238)	(31,238)
As restated	288,420	298,744	78,894	18,313	40,621	(2,281,445)	(1,844,873)	(1,556,453)
Profit for the year of 2003	-	-	-	-	-	11,944	11,944	11,944
Difference from renovation work on staff housing	-	-	-	53	-	-	53	53
As at December 31, 2003	<u>288,420</u>	<u>298,744</u>	<u>78,894</u>	<u>18,366</u>	<u>40,621</u>	<u>(2,269,501)</u>	<u>(1,832,876)</u>	<u>(1,544,456)</u>

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 Financial Reporting Standards.

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 utilization, 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.

Guangdong Sunrise Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 2003

	Note	2003 RMB'000	Restated 2002 RMB'000
Cash flow from operating activities			
Profit/(loss) before taxation		12,557	(540,425)
Adjustment items :			
Interest income	(	65)	(13)
Dividend income	(	2,932)	-
Interest expense		32,266	40,024
Depreciation		7,824	1,967
Impairment loss reversal on property, plant and equipment	(	1,130)	-
Profit on disposal of property, plant and equipment	(	10,923)	(108)
Loss on disposal of subsidiaries		-	5,981
Impairment loss provision on unconsolidated subsidiaries		1,595	24,845
Profit on disposal of an unconsolidated subsidiary	(	20,000)	-
Increase in interests in unconsolidated subsidiaries		-	(24,966)
Impairment loss reversal on interests in associates		-	(8,466)
(Profit)/loss on disposal of associates		3,082	(25,256)
Share of results from associates	(	1,265)	7,408
Profit on disposal of long-term investments	(	18,637)	-
Reversal for inventory obsolescence		-	(61,127)
Provision/(reversal) for doubtful debts on account receivables		3,645	(7,340)
Reversal for doubtful debts on other receivables and prepayments		-	(73,108)
Provision/(reversal) for loss on guarantees	(	8,671)	303,963
Account payables waived		-	(13,061)
Reversal for loss on minority interests		-	(9,859)
Net operating cash outflow			
before movements in working capital	(	2,654)	(379,541)
Increase in amounts due to unconsolidated subsidiaries		1,263	826
Increase in amounts due to associates		373	-
Decrease in amounts due to long-term investments		-	(76,925)
(Increase)/decrease in inventories	(	13,387)	61,127
Decrease in account receivables		2,651	42,000
(Increase)/decrease in other receivables and prepayments	(	104,481)	142,951
Increase in note receivables	(	630)	-
Increase in account payables		9,798	-
Increase in other payables and accrued charges		70,474	211,669
Decrease in note payables	(	120)	-
Cash inflow/(outflow) from operating activities			
before interest and tax payments	(	36,713)	2,107

(to be cont'd)

Guangdong Sunrise Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 2003

(cont'd)

	Note	2003 RMB'000	Restated 2002 RMB'000
Cash inflow/(outflow) from operating activities			
before interest and tax payments		(36,713)	2,107
Interest paid		(751)	-
Corporate and profits tax paid		(467)	(97)
Net cash inflow/(outflow) from operating activities		<u>(37,931)</u>	<u>2,010</u>
Investing activities			
Interest received		65	13
Dividend received		2,932	-
Purchases of property, plant and equipment		(2,614)	(27)
Proceeds from disposal of property, plant and equipment		27,581	361
Increase in construction in progress		(4,607)	(18)
Net cash inflow from consolidating nominated companies	20	24,669	-
Net cash outflow from disposal of subsidiaries		-	(106,315)
Proceeds from disposal of an unconsolidated subsidiary		20,000	-
Net cash outflow from subsidiaries not consolidated	22	(1,269)	-
Proceeds from disposal of investments in associates		5,507	83,860
Proceeds from disposal of long-term investments		54,639	19,018
Net cash inflow/(outflow) from investing activities		<u>126,903</u>	<u>(3,108)</u>
Financing activities			
Dividend paid to minority shareholders	23	(902)	-
Bank and other loans repaid	23	(62,514)	(17,203)
Net cash outflow from financing activities		<u>(63,416)</u>	<u>(17,203)</u>
Increase/(decrease) in cash and cash equivalents		25,556	(18,301)
Cash and cash equivalents as at beginning of the year		<u>1,858</u>	<u>20,159</u>
Cash and cash equivalents as at end of the year		<u><u>27,414</u></u>	<u><u>1,858</u></u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

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 Financial Reporting Standards (“IFRS”) 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 IFRS, 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, 2003 and on the operating results for the year then ended are included in note 30 to the financial statements. In addition, the financial statements have been prepared under the historical cost convention except for certain property, plant and equipment that are stated at valuation less accumulated depreciation.

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, 2003, the Group’s accumulated loss amounted to RMB2,269,501,000. Moreover, the Group had outstanding liabilities on bank and other loans, account payables and other payables, etc. totalling RMB1,839,984,000. 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 a 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.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

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 activities
Shanghai Lionda Industrial Co. Ltd.	PRC	100%	Trading in light industrial products
Shenzhen Lionda Industrial Trading Co. Ltd.	PRC	32% *	Import and export trading and property management
Shenzhen Goodyear Enterprise Holdings Co. Ltd.	PRC	26.54% **	Packaging
Shenzhen Lionda Property Management Co. Limited	PRC	100% ***	Property management, trading of foods and motor car spare parts
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 Lionda Lucky C&B Industrial Co. Limited	PRC	100% ***	Design and production of luggage cases
Shenzhen Lionda Electrical Equipment Co. Limited	PRC	100% ***	Production of vacuum flasks and home electrical fans

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(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 activities
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
Shenzhen Lionda Junk Trading Market Co. Limited	PRC	51% ***	Trading of junk and wireless communication products

* Pursuant to an agreement signed between the Company and a shareholder of Shenzhen Lionda Industrial Trading Co. Ltd., the Company has been assigned the voting and casting power in relation to the 20% equity interest in Shenzhen Lionda Industrial Trading Co. Ltd. held by this shareholder. The nomination period is from January 1, 2003 to December 31, 2005. As a result of the above arrangement, the Group has an aggregate voting and casting power of 52% over the above nominated company and is able to control this company's board of directors. In this situation, this nominated company is consolidated in the Group's financial statements.

** Pursuant to an agreement signed between the Company and a shareholder of Shenzhen Goodyear Enterprise Holdings Co. Ltd., the Company has been assigned the voting and casting power in relation to the 19.03% equity interest in Shenzhen Goodyear Enterprise Holdings Co. Ltd. held by this shareholder. The nomination period is from July 1, 2003 to December 31, 2005. As a result of the above arrangement, the Group has an aggregate voting and casting power of 45.57% over the above nominated company. Nevertheless, the Group is able to control this company's board of directors. In this situation, this nominated company is consolidated in the Group's financial statements.

*** These subsidiaries are not required to be consolidated as they have ceased the business, are under liquidation or are unable to transfer funds to the parent because of their long-term restricted operations.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

3. Basis of consolidation (cont'd)

(b) Associates

An associate is a company 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.

Investments in associates are accounted for by equity method. Interests in associates are represented by the Group's share of their net assets, reduced by the impairment loss provision as considered necessary by the directors.

The details of the principal associates are as follows :

Name	Place of establishment/ operation	Attributable equity interest	Principal activities
Yueshen Light Industry Trading Co.	PRC	50%	Import and export of food and textiles
Hunan Shenli Special Alloy Co. Ltd.	PRC	45%	Production of hard alloy ware
Shenzhen Golden Bell Batteries Co. Ltd.	PRC	40%	Production of dry batteries and electronic products
Shenzhen Yinzhezuo Club	PRC	40%	Provision of law consultant service and restaurant
Shenzhen Taiyang TCCP Co. Ltd.	PRC	34%	Production, transportation and installation of steel, concrete tube
Shenzhen Lionda Bao Shui Trading Co. Ltd.	PRC	30%	Trading
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 Enamelware Enterprise Co. Ltd.	PRC	20.33%	Production of enamelware
Shenzhen Jianda Machinery Co. Ltd.	PRC	20%	Production of plastic injection machinery, etc.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(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 activities
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

* Significant influence

** 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

These 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 capitalized 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.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Principal accounting policies (cont'd)

(a) Property, plant, equipment and depreciation (cont'd)

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

Land use rights	Over the lease terms
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.

(c) Investments

Investments, whether they are held on a long-term or a short-term basis, are stated at cost less provision for any diminution in value as 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 realizable 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 realizable 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 realizable value. Cost comprises land cost, construction cost, directly attributable overheads and interest cost capitalized during the period of development. Net realizable value represents the estimated selling price less related expenses.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Principal accounting policies (cont'd)

(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 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 has been established.

(f) Capitalization 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 capitalized as part of the cost of those assets. Borrowing costs not eligible for capitalization are recognized as an expense in the period in which they are incurred. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of proceeds from specific borrowings, pending the properties being qualified as completed, is deducted from the borrowing costs capitalized.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Principal accounting policies (cont'd)

(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.

A reversal of impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment loss are credited to the income statement in the year in which the reversals are recognized.

(j) Provisions

Provisions are recognized 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.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

4. Principal accounting policies (cont'd)

(k) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed as at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Tax asset can be offset against tax liability only if the Group has a legally enforceable right to make or receive a single net payment and the Group intends to make or receive such a net payment or to recover the asset and settle the liability simultaneously.

5. Turnover

	2003	2002
	RMB'000	RMB'000
Sale of merchandises	72,112	-
Takings from catering services	5,156	6,712
	<u>77,268</u>	<u>6,712</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

6. Exceptional items

	2003 RMB'000	2002 RMB'000
Impairment loss reversal on property, plant and equipment	1,130	-
Profit on disposal of property, plant and equipment	10,923	-
Loss on disposal of subsidiaries	-	(5,981)
Impairment loss provision on unconsolidated subsidiaries	(1,595)	(24,845)
Profit on disposal of an unconsolidated subsidiary	20,000	-
Impairment loss reversal on interests in associates	-	8,466
Profit/(loss) on disposal of associates	(3,082)	25,256
Profit on disposal of long-term investments	18,637	-
Dividend income	2,932	-
Reversal for inventory obsolescence	-	61,127
Reversal for doubtful debts on account receivables	-	7,340
Reversal for doubtful debts on other receivables and prepayments	-	73,108
Provision/(reversal) for loss on guarantees	8,671	(303,963)
Account payables waived	-	13,061
Reversal for loss on minority interests	-	9,859
	<u>57,616</u>	<u>(136,572)</u>

7. Profit/loss before taxation

	2003 RMB'000	2002 RMB'000
The Group's profit/loss before taxation is arrived at after charging :		
Auditors' remuneration	600	600
Directors' emoluments	527	291
Depreciation	7,824	1,967
Interest expense	32,266	40,024
Provision for doubtful debts on account receivables	3,645	-
Staff costs	12,124	3,146
Contributions to retirement scheme	251	197
	<u>251</u>	<u>197</u>
And after crediting :		
Interest income	65	13
Rental income	4,823	-
	<u>4,823</u>	<u>-</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

8. Taxation

	2003 RMB'000	2002 RMB'000
Income tax		
- Company and subsidiaries	7	26
- Associates	52	-
	<u>59</u>	<u>26</u>

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

The reconciliation between tax expense and accounting profit/(loss) at applicable tax rates is as follows :

	2003 RMB'000	2002 RMB'000
Profit/(loss) before taxation	<u>12,557</u>	<u>(540,425)</u>
Tax at the applicable income tax rate of 15% (2002 - 15%)	1,883	(81,064)
Tax effect of :		
- disallowable expenses	9	11
- non-taxable revenue	(160)	-
- recognized tax losses	(1,673)	-
- unrecognized tax losses	-	81,079
Actual tax expense	<u>59</u>	<u>26</u>

No deferred tax asset is recognized as it is uncertain whether taxable profit will be available against which deductible temporary differences can be utilized in the near future. As at December 31, 2003, the net unprovided deferred tax asset was RMB233,587,000 (2002 - RMB288,457,000).

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

9. Property, plant and equipment

	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost						
As at January 1, 2003	-	41,497	-	4,304	8,694	54,495
Additions/transfer from construction in progress	1,754	697	2,145	369	463	5,428
Increase on consolidating nominated companies	10,814	97,991	123,489	8,328	7,682	248,304
Reversal of impairment loss	-	-	52	1,055	23	1,130
Decrease from not consolidating certain subsidiaries	-	(76)	-	(260)	(406)	(742)
Disposals	-	(22,669)	(62)	(4,124)	(1,366)	(28,221)
As at December 31, 2003	12,568	117,440	125,624	9,672	15,090	280,394
Accumulated depreciation						
As at January 1, 2003	-	(13,553)	-	(3,707)	(7,879)	(25,139)
Additions	(554)	(3,799)	(2,093)	(609)	(769)	(7,824)
Increase on consolidating nominated companies	(2,512)	(35,028)	(79,530)	(6,397)	(5,195)	(128,662)
Decrease from not consolidating certain subsidiaries	-	66	-	144	195	405
Disposals	-	7,887	35	2,406	1,235	11,563
As at December 31, 2003	(3,066)	(44,427)	(81,588)	(8,163)	(12,413)	(149,657)
Net book value						
As at December 31, 2003	9,502	73,013	44,036	1,509	2,677	130,737
As at December 31, 2002	-	27,944	-	597	815	29,356

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

10. Construction in progress

	2003 RMB'000	2002 RMB'000
Balance as at January 1, 2003	18	-
Additions	4,607	18
Transfer to property, plant and equipment	(2,814)	-
	<u>1,811</u>	<u>18</u>
Balance as at December 31, 2003	<u>1,811</u>	<u>18</u>

11. Interests in unconsolidated subsidiaries

	2003 RMB'000	2002 RMB'000
Cost of unconsolidated subsidiaries (*)	32,088	46,080
Impairment loss provision	(32,088)	(46,080)
	-	-
Amounts due to unconsolidated subsidiaries (*)	(5,169)	(3,906)
	<u>(5,169)</u>	<u>(3,906)</u>

(*) *Certain subsidiaries of the Group are excluded from consolidation because they are 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 impair their abilities to transfer funds to their parent. In the opinion of the directors, their exclusion from consolidation will not have a material impact on the overall presentation of the financial statements of the Group as a whole.*

12. Interests in associates

	2003 RMB'000	2002 RMB'000
Share of net assets of associates	18,171	61,197
Impairment loss provision	(8,332)	(14,561)
	9,839	46,636
Amounts due to associates	(373)	-
	<u>9,466</u>	<u>46,636</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

13. Long-term investments

	2003	2002
	RMB'000	RMB'000
"A" shares of companies listed in the PRC, at cost (*)	10,000	10,000
Other unlisted equity investments, at cost	34,055	68,477
	<u>44,055</u>	<u>78,477</u>
Impairment loss provision	(32,943)	(33,143)
	<u>11,112</u>	<u>45,334</u>
Amounts due from other long-term investments	-	66,962
	<u>11,112</u>	<u>112,296</u>

(*) The Court has seized all the Group's investment in listed shares.

14. Inventories

	2003	2002
	RMB'000	RMB'000
Raw materials	21,516	192
Work in progress	1,082	-
Finished goods	13,161	1,000
Properties held for sale	22,913	22,913
	<u>58,672</u>	<u>24,105</u>
Provision for inventory obsolescence	(27,504)	(21,913)
	<u>31,168</u>	<u>2,192</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

15. Account receivables

	2003 RMB'000	2002 RMB'000
Amount receivables	44,799	-
Provision for doubtful debts	(7,508)	-
	<u>37,291</u>	<u>-</u>

As at December 31, 2003, the aging of amount receivables is analyzed as follows :

	2003 RMB'000	2002 RMB'000
Within one year	38,455	-
Over one year but within two years	3,172	-
Over two years but within three years	323	-
Over three years	2,849	-
	<u>44,799</u>	<u>-</u>

16. Other receivables and prepayments

	2003 RMB'000	2002 RMB'000
Prepayments	9,454	440
Other receivables	425,761	133,937
	<u>435,215</u>	<u>134,377</u>
Provision for doubtful debts	(306,951)	(132,100)
	<u>128,264</u>	<u>2,277</u>

As at December 31, 2003, the aging of other receivables and prepayments is analyzed as follows :

	2003 RMB'000	2002 RMB'000
Within one year	10,780	440
Over one year but within two years	70,018	-
Over two years but within three years	27,935	-
Over three years	326,482	133,937
	<u>435,215</u>	<u>134,377</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

17. Share capital

	2003 RMB'000	2002 RMB'000
Registered, issued and fully paid, at par value of RMB1 each		
208,560,000 (2002 - 208,560,000) domestic shares	208,560	208,560
40,260,000 (2002 - 40,260,000) "A" shares	40,260	40,260
39,600,000 (2002 - 39,600,000) "B" shares	39,600	39,600
	<u>288,420</u>	<u>288,420</u>

18. Bank and other loans

	2003 RMB'000	2002 RMB'000
Bank loans - unsecured	448,149	493,375
Bank loans - secured	25,398	33,000
Other loans	156,142	127,518
	<u>629,689</u>	<u>653,893</u>

As at December 31, 2003, the aging of bank
and other loans is analyzed as follows :

	2003 RMB'000	2002 RMB'000
Overdue amounts	564,046	649,395
Premature amounts	65,643	4,498
	<u>629,689</u>	<u>653,893</u>

19. Other payables and accrued charges

	2003 RMB'000	2002 RMB'000
Amounts received in advance	705	137
Accrued expenses	231,537	193,233
Anticipated commitments and liabilities	707,900	721,904
Accrued staff welfare	343	220
Others	237,065	177,497
	<u>1,177,550</u>	<u>1,092,991</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

20. Nominated companies transferred from associates to subsidiaries

	2003	2002
	RMB'000	RMB'000
Property, plant and equipment	119,642	-
Other investments	1,824	
Inventories	15,589	-
Account receivables	43,587	-
Other receivables and prepayments	24,786	-
Cash and bank balances	24,669	-
Short-term bank loans	(38,310)	
Account payables	(20,067)	-
Other payables and accrued charges	(61,255)	-
Note payables	(3,000)	-
	<u>107,465</u>	<u>-</u>
Satisfied by		
Interests in associates	29,419	-
Minority interests	78,046	-
	<u>107,465</u>	<u>-</u>
Net cash inflow from consolidating nominated companies	<u>24,669</u>	<u>-</u>

21. Disposal of subsidiaries

	2003	2002
	RMB'000	RMB'000
Property, plant and equipment	-	221
Inventories	-	20,855
Other receivables and prepayments	-	14,745
Cash and bank balances	-	11,603
Account payables	-	(29)
Other payables and accrued charges	-	(118,685)
Short-term bank loans	-	(27,300)
	<u>-</u>	<u>(98,590)</u>
Minority interests	-	9,859
Loss on disposal of subsidiaries	-	(5,981)
	<u>-</u>	<u>(94,712)</u>
Satisfied by cash	<u>-</u>	<u>(94,712)</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

22. Subsidiaries not consolidated

	2003 RMB'000	2002 RMB'000
Property, plant and equipment	337	-
Other receivables and prepayments	3,333	-
Other payables and accrued charges	(3,050)	-
	<u>620</u>	<u>-</u>
Minority interests	(294)	-
Cost of subsidiaries not consolidated	(1,595)	-
	<u>(1,269)</u>	<u>-</u>
Net cash outflow from subsidiaries not consolidated	<u>(1,269)</u>	<u>-</u>

23. Cash flows from financing

	Bank and other loans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	653,893	294
Cash outflow from financing	(62,514)	-
Cash inflow from consolidating nominated companies	38,310	78,046
Reduced by subsidiaries being unconsolidated	-	(294)
Dividend paid to minority shareholders	-	(902)
Minority interests' share of results	-	554
	<u>629,689</u>	<u>77,698</u>
Balance as at end of the year	<u>629,689</u>	<u>77,698</u>

24. Lease commitments

The Group earned rental income of RMB4,823,000 (2002 - nil) during the year. As at December 31, 2003, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows :

	2003 RMB'000	2002 RMB'000
Within one year	8,309	-
In the second to fifth years inclusive	3,262	-
	<u>11,571</u>	<u>-</u>

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

25. Related party transactions

As at December 31, 2003, the Group had balances with related companies that arose from the normal course of the business operations :

	2003 RMB'000	2002 RMB'000
Account receivables before provision :		
Other related companies	<u>356,629</u>	<u>81,094</u>
Account payables :		
Holding company	27,579	20,156
Other related companies	<u>53,783</u>	<u>34,172</u>
	<u>81,362</u>	<u>54,328</u>

Guarantees

As at December 31, 2003, the Group had guarantees on banking facilities granted to related companies amounting to RMB1,526,355,000 (2002 - RMB1,835,956,000).

26. Prior year adjustment

On March 30, 1998, the Group entered into a purchase contract with the supplier Jia Zhou Co., Ltd. In addition, the Group had a co-operative agreement with Xin Gang Ao Co., Ltd. under which the latter had instructed Credit Agricole Indosuez to issue letters of credit in the amount of US\$3.5 million in favour of the Group's supplier Jia Zhou Co., Ltd. However, Jia Zhou Co., Ltd. drew up the amounts from the letters of credit without actual delivery of the Group's ordered items. This act was proven to be fraudulent. As a result, the Group suffered loss and needed to compensate Xin Gang Ao Co., Ltd. The accounting treatments in relation to the above were previously not recorded in the Group's financial statements. To remedy this error, the Group has retrospectively restated the financial statements for this year by increasing both accumulated loss and other payables by RMB31,238,000 as at the beginning of 2002 and 2003.

27. Pledge of assets

As at December 31, 2003, the Group had pledged its buildings with a net book value of RMB57,000,000 to banks to secure general banking facilities.

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

28. Contingent liabilities

As at December 31, 2003, the Group had the following contingent liabilities :

	2003 RMB'000	2002 RMB'000
Potential liabilities from court action in relation to the guarantees given by the Group	66,175	229,357
Guarantees to financial institutions in respect of the Group's facilities	1,035,377	823,125
	<u>1,101,552</u>	<u>1,052,482</u>

29. Ultimate holding company

In the opinion of the directors, the ultimate holding company of the Group was Shenzhen Investment Administrative Company, a state-owned enterprise established in the PRC. As at January 5, 2004, Shenzhen Investment Administrative Company sold its 191,400,000 domestic shares in the Company to Shenzhen Lionda Group Co., Ltd. Since then, Shenzhen Lionda Group Co., Ltd. held 66.36% equity interest in the Company and had become the Company's ultimate holding company.

30. Impact on results attributable to shareholders and net asset value as reported by the PRC Certified Public Accountants

	Profit attributable to shareholders RMB'000	Net asset value RMB'000
As reported by PRC Certified Public Accountants	11,391	(1,544,474)
Adjustments to conform to IFRS		
Unrealized inter-group profit margin	485	-
Prior year adjustment on interest in an associate	198	-
Prepayments amortized	(130)	(174)
Housing welfare fund transfer	-	192
	<u>11,944</u>	<u>(1,544,456)</u>
As restated in conformity with IFRS		

Guangdong Sunrise Holdings Company Limited

Notes to the financial statements for the year ended December 31, 2003

(cont'd)

31. Financial instruments

Financial assets of the Group include cash and bank balances, short-term investments, note receivables, account receivables, other receivables and prepayments and tax recoverable. Financial liabilities include bank and other loans, note payables, 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.

Note receivables, 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.

32. Language

The translated English version of financial statements is for reference only. Should any disagreement arise, the Chinese version shall prevail.

33. Comparative figures

Certain comparative figures of consolidated balance sheet, consolidated cash flow statement and the related notes have been reclassified so as to conform to the current year's presentation.