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, 2004**

Guangdong Sunrise Holdings Company Limited

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

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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, 2004 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 26). 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 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, 2004 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 : April 19, 2005

Guangdong Sunrise Holdings Company Limited

Consolidated income statement for the year ended December 31, 2004

	Note	2004 RMB'000	2003 RMB'000
Turnover	5	142,607	77,268
Cost of sales		(126,214)	(64,127)
Gross profit		16,393	13,141
Other incomes		7,879	3,206
Distribution costs		(6,487)	(3,677)
Administrative costs		(40,710)	(26,802)
Operating loss		(22,925)	(14,132)
Finance costs		(32,545)	(32,192)
Exceptional items	6	7,829	57,616
Share of results from associates		59	1,265
Profit/(loss) before taxation	7	(47,582)	12,557
Taxation	8	536	(59)
Profit/(loss) after taxation		(47,046)	12,498
Minority interests		(877)	(554)
Profit/(loss) for the year		(47,923)	11,944
Earnings/(loss) per share		RMB(0.166)	RMB0.041

The calculation of the basic earnings/(loss) per share is based on the current year's loss of RMB47,923,000 (2003 - profit of RMB11,944,000) 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, 2004

	Note	2004 RMB'000	2003 RMB'000
Non-current assets			
Property, plant and equipment	9	120,077	130,737
Construction in progress	10	1,702	1,811
Interests in unconsolidated subsidiaries	11	(1,019)	(5,169)
Interests in associates	12	7,108	9,466
Long-term investments	13	11,112	11,112
		138,980	147,957
Current assets			
Inventories	14	29,205	31,168
Account receivables	15	49,007	37,291
Other receivables and prepayments	16	62,821	128,264
Tax recoverable		275	458
Note receivables		189	630
Short-term investments		44	44
Cash and bank balances		17,227	27,414
		158,768	225,269
Total assets		297,748	373,226
Capital and reserves			
Share capital	17	288,420	288,420
Reserves		(1,880,376)	(1,832,876)
		(1,591,956)	(1,544,456)
Minority interests		77,851	77,698
Current liabilities			
Bank and other loans	18	575,611	629,689
Account payables		27,209	29,865
Other payables and accrued charges	19	1,209,033	1,177,550
Note payables		-	2,880
		1,811,853	1,839,984
Total equity and liabilities		297,748	373,226

The financial statements on pages 2 to 26 were approved and authorised for issue by the board of directors on April 19, 2005 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, 2004

	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	Total reserves RMB'000	Share capital and total reserves RMB'000
		Reserves						
As at January 1, 2003	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	288,420	298,744	78,894	18,366	40,621	(2,269,501)	(1,832,876)	(1,544,456)
As at January 1, 2004	288,420	298,744	78,894	18,366	40,621	(2,269,501)	(1,832,876)	(1,544,456)
Loss for the year of 2004	-	-	-	-	-	(47,923)	(47,923)	(47,923)
Difference from renovation work on staff housing	-	-	-	423	-	-	423	423
As at December 31, 2004	288,420	298,744	78,894	18,789	40,621	(2,317,424)	(1,880,376)	(1,591,956)

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, 2004

	Note	2004 RMB'000	2003 RMB'000
Cash flow from operating activities			
Profit/(loss) before taxation		(47,582)	12,557
Adjustment items :			
Interest income		(78)	(65)
Dividend income		(2)	(2,932)
Interest expense		32,357	32,266
Depreciation		12,445	7,824
Impairment loss provision/(reversal) on property, plant and equipment		961	(1,130)
Profit on disposal of property, plant and equipment		(2,636)	(10,923)
Impairment loss provision on unconsolidated subsidiaries		-	1,595
Profit on disposal of an unconsolidated subsidiary		-	(20,000)
Impairment loss provision on interests in associates		2,690	-
Loss on disposal of associates		-	3,082
Share of results from associates		(59)	(1,265)
Profit on disposal of long-term investments		(2,061)	(18,637)
Reversal for inventory obsolescence		(3,469)	-
Provision/(reversal) for doubtful debts on account receivables		(3,755)	3,645
Provision for doubtful debts on other receivables		22,365	-
Bad debts written off for other receivables		8,695	-
Reversal for loss on guarantees		(6,781)	(8,671)
Net operating cash inflow/(outflow) before movements in working capital		13,090	(2,654)
Increase/(decrease) in amounts due to unconsolidated subsidiaries		(4,150)	1,263
Increase/(decrease) in amounts due to associates		(373)	373
(Increase)/decrease in inventories		5,432	(13,387)
(Increase)/decrease in account receivables		(7,961)	2,651
(Increase)/decrease in other receivables and prepayments		34,806	(104,481)
(Increase)/decrease in note receivables		441	(630)
Increase/(decrease) in account payables		(2,656)	9,798
Increase in other payables and accrued charges		6,731	70,474
Decrease in note payables		(2,880)	(120)
Cash inflow/(outflow) from operating activities before interest and tax payments		42,480	(36,713)

(to be cont'd)

Guangdong Sunrise Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 2004

(cont'd)

	Note	2004 RMB'000	2003 RMB'000
Cash inflow/(outflow) from operating activities before interest and tax payments		42,480	(36,713)
Interest paid		(724)	(751)
Corporate and profits tax refunded/(paid)		719	(467)
Net cash inflow/(outflow) from operating activities		42,475	(37,931)
Investing activities			
Interest received		78	65
Dividend received		2	2,932
Purchases of property, plant and equipment		(5,860)	(2,614)
Proceeds from disposal of property, plant and equipment		10,971	27,581
Increase in construction in progress		(5,112)	(4,607)
Net cash inflow from consolidating nominated companies	20	-	24,669
Proceeds from disposal of an unconsolidated subsidiary		-	20,000
Net cash outflow from subsidiaries not consolidated	21	-	(1,269)
Proceeds from disposal of investments in associates		-	5,507
Proceeds from disposal of long-term investments		2,061	54,639
Net cash inflow from investing activities		2,140	126,903
Financing activities			
Dividend paid to minority shareholders	22	(724)	(902)
Bank and other loans repaid	22	(54,078)	(62,514)
Net cash outflow from financing activities		(54,802)	(63,416)
Increase/(decrease) in cash and cash equivalents		(10,187)	25,556
Cash and cash equivalents as at beginning of the year		27,414	1,858
Cash and cash equivalents as at end of the year		17,227	27,414

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 preparation of the financial statements

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, 2004 and on the operating results for the year then ended are included in note 28 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, 2004, the Group's accumulated loss amounted to RMB2,317,424,000. Moreover, the Group had outstanding liabilities on bank and other loans, account payables and other payables, etc. totalling RMB1,811,853,000. 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.

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

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.*

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 Yinzhizuo 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.

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 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.

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	20-50 years
Plant and machinery	5-10 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 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 realizable value. Cost comprises land cost, construction cost, directly attributable overheads and interest cost capitalised during the period of development. Net realizable value represents the estimated selling price less related expenses.

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) 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. 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 capitalised.

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 recognised in prior years. Reversals of impairment loss are credited to the income statement in the year in which the reversals are recognised.

(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.

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 recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised 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 recognised 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 realised. 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

	2004 **RMB'000**	**2003** **RMB'000**
Sale of merchandises	140,247	72,112
Takings from catering services	2,360	5,156
	142,607	77,268

6. Exceptional items

	2004 RMB'000	2003 RMB'000
Impairment loss (provision)/reversal on property, plant and equipment	(961)	1,130
Profit on disposal of property, plant and equipment	2,636	10,923
Impairment loss provision on unconsolidated subsidiaries	-	(1,595)
Profit on disposal of an unconsolidated subsidiary	-	20,000
Impairment loss provision on interests in associates	(2,690)	-
Loss on disposal of associates	-	(3,082)
Profit on disposal of long-term investments	2,061	18,637
Dividend income	2	2,932
Reversal for loss on guarantees	6,781	8,671
	7,829	57,616

7. Profit/loss before taxation

	2004 RMB'000	2003 RMB'000
The Group's profit/loss before taxation is arrived at after charging :		
Auditors' remuneration	600	600
Directors' emoluments	-	527
Depreciation	12,445	7,824
Interest expense	32,357	32,266
Provision for doubtful debts on account receivables	-	3,645
Provision for doubtful debts on other receivables	22,365	-
Bad debts written off for other receivables	8,695	-
Staff costs	4,942	12,124
Contributions to retirement scheme	-	251
And after crediting :		
Interest income	78	65
Rental income	7,995	4,823
Reversal for inventory obsolescence	3,469	-
Reversal for doubtful debts on account Receivables	3,755	-

8. Taxation

	2004 RMB'000	2003 RMB'000
Income tax		
- Company and subsidiaries	(579)	7
- Associates	43	52
	(536)	59

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 :

	2004 RMB'000	2003 RMB'000
Profit/(loss) before taxation	(47,582)	12,557
Tax at the applicable income tax rate of 15% (2003 – 15%)	(7,137)	1,883
Tax effect of :		
- disallowable expenses	-	9
- non-taxable revenue	-	(160)
- recognised tax losses	-	(1,673)
- unrecognised tax losses	6,601	-
Actual tax expense	(536)	59

No deferred tax asset is recognised as it is uncertain whether taxable profit will be available against which deductible temporary differences can be utilised in the near future. As at December 31, 2004, the net unprovided deferred tax asset was RMB240,778,000 (2003 - RMB233,587,000).

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, 2004	12,568	117,440	125,624	9,672	15,090	280,394
Additions/transfer from construction in progress	-	4,302	5,257	225	1,297	11,081
Provision of impairment loss	(961)	-	-	-	-	(961)
Disposals	-	(30,254)	(324)	(114)	(1,168)	(31,860)
As at December 31, 2004	11,607	91,488	130,557	9,783	15,219	258,654
Accumulated depreciation						
As at January 1, 2004	(3,066)	(44,427)	(81,588)	(8,163)	(12,413)	(149,657)
Additions	(589)	(4,714)	(6,491)	(196)	(455)	(12,445)
Disposals	-	22,557	245	89	634	23,525
As at December 31, 2004	(3,655)	(26,584)	(87,834)	(8,270)	(12,234)	(138,577)
Net book value						
As at December 31, 2004	7,952	64,904	42,723	1,513	2,985	120,077
As at December 31, 2003	9,502	73,013	44,036	1,509	2,677	130,737

10. Construction in progress

	2004 RMB'000	2003 RMB'000
Balance as at January 1, 2004	1,811	18
Additions	5,592	4,607
Disposals	(480)	-
Transfer to property, plant and equipment	(5,221)	(2,814)
Balance as at December 31, 2004	1,702	1,811

11. Interests in unconsolidated subsidiaries

	2004 RMB'000	2003 RMB'000
Cost of unconsolidated subsidiaries (*)	32,088	32,088
Impairment loss provision	(32,088)	(32,088)
	-	-
Amounts due to unconsolidated subsidiaries (*)	(1,019)	(5,169)
	(1,019)	(5,169)

(*) *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

	2004 RMB'000	2003 RMB'000
Share of net assets of associates	18,130	18,171
Impairment loss provision	(11,022)	(8,332)
	7,108	9,839
Amounts due to associates	-	(373)
	7,108	9,466

13. Long-term investments

	2004 RMB'000	2003 RMB'000
"A" shares of companies listed in the PRC, at cost (*)	10,000	10,000
Other unlisted equity investments, at cost	29,055	34,055
	39,055	44,055
Impairment loss provision	(27,943)	(32,943)
	11,112	11,112

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

14. Inventories

	2004 RMB'000	2003 RMB'000
Raw materials	13,523	21,516
Work in progress	3,522	1,082
Finished goods	13,282	13,161
Properties held for sale	22,913	22,913
	53,240	58,672
Provision for inventory obsolescence	(24,035)	(27,504)
	29,205	31,168

15. Account receivables

	2004 RMB'000	2003 RMB'000
Amount receivables	52,760	44,799
Provision for doubtful debts	(3,753)	(7,508)
	49,007	37,291

As at December 31, 2004, the aging of amount receivables is analysed as follows :

	2004 RMB'000	2003 RMB'000
Within one year	51,032	38,455
Over one year but within two years	339	3,172
Over two years but within three years	325	323
Over three years	1,064	2,849
	52,760	44,799

16. Other receivables and prepayments

	2004 RMB'000	2003 RMB'000
Prepayments	1,129	9,454
Other receivables	391,008	425,761
	392,137	435,215
Provision for doubtful debts	(329,316)	(306,951)
	62,821	128,264

As at December 31, 2004, the aging of other receivables and prepayments is analysed as follows :

	2004 RMB'000	2003 RMB'000
Within one year	28,502	10,780
Over one year but within two years	31,230	70,018
Over two years but within three years	94,009	27,935
Over three years	238,396	326,482
	392,137	435,215

17. Share capital

	2004 RMB'000	2003 RMB'000
Registered, issued and fully paid, at par value of RMB1 each		
208,560,000 (2003 - 208,560,000) domestic shares	208,560	208,560
40,260,000 (2003 - 40,260,000) "A" shares	40,260	40,260
39,600,000 (2003 - 39,600,000) "B" shares	39,600	39,600
	288,420	288,420

18. Bank and other loans

	2004 RMB'000	2003 RMB'000
Bank loans - unsecured	412,019	448,149
Bank loans - secured	19,900	25,398
Other loans	143,692	156,142
	575,611	629,689

As at December 31, 2004, the aging of bank and other loans is analysed as follows :

	2004 RMB'000	2003 RMB'000
Overdue amounts	539,141	564,046
Premature amounts	36,470	65,643
	575,611	629,689

19. Other payables and accrued charges

	2004 RMB'000	2003 RMB'000
Amounts received in advance	2,341	705
Accrued expenses	258,969	231,537
Anticipated commitments and liabilities	696,463	707,900
Accrued staff welfare	714	343
Others	250,546	237,065
	1,209,033	1,177,550

20. Nominated companies transferred from associates to subsidiaries

	2004 RMB'000	2003 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)
	-	107,465
Satisfied by		
Interests in associates	-	29,419
Minority interests	-	78,046
	-	107,465
Net cash inflow from consolidating nominated companies	-	24,669

21. Subsidiaries not consolidated

	2004 RMB'000	2003 RMB'000
Property, plant and equipment	-	337
Other receivables and prepayments	-	3,333
Other payables and accrued charges	-	(3,050)
	-	620
Minority interests	-	(294)
Cost of subsidiaries not consolidated	-	(1,595)
Net cash outflow from subsidiaries not consolidated	-	(1,269)

22. Cash flows from financing

	Bank and otherloans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	629,689	77,698
Cash outflow from financing	(54,078)	-
Dividend paid to minority shareholders	-	(724)
Minority interests' share of results	-	877
Balance as at end of the year	575,611	77,851

23. Lease commitments

The Group earned rental income of RMB7,995,000 (2003 - RMB4,823,000) during the year. As at December 31, 2004, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows :

	2004 RMB'000	2003 RMB'000
Within one year	703	8,309
In the second to fifth years inclusive	2,613	3,262
	3,316	11,571

24. Related party transactions

As at December 31, 2004, the Group had balances with related companies that arose from the normal course of the business operations :

	2004 RMB'000	2003 RMB'000
Account receivables before provision :		
Other related companies	308,859	356,629
Account payables :		
Holding company	67,988	27,579
Other related companies	6,039	53,783
	74,027	81,362

Guarantees

As at December 31, 2004, the Group had guarantees on banking facilities granted to related companies amounting to RMB1,416,716,000 (2003 - RMB1,526,355,000).

25. Pledge of assets

As at December 31, 2004, the Group had pledged its buildings with a net book value of RMB41,267,000 to banks to secure general banking facilities.

26. Contingent liabilities

As at December 31, 2004, the Group had the following contingent liabilities :

	2004 RMB'000	2003 RMB'000
Potential liabilities from court action in relation to the guarantees given by the Group	99,358	66,175
Guarantees to financial institutions in respect of the Group's facilities	992,560	1,035,377
	1,091,918	1,101,552

27. Ultimate holding company

On 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.

28. Impact on results 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	(47,939)	(1,591,989)
Adjustments to conform to IFRS		
Prepayments amortised	16	(159)
Housing welfare fund transfer	-	192
As restated in conformity with IFRS	(47,923)	(1,591,956)

29. 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.

30. Language

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