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, 2005

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(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

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We have audited the accompanying balance sheet of Guangdong Sunrise Holdings Company Limited as of December 31, 2005 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 19) 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 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, 2005 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 30, 2006

Guangdong Sunrise Holdings Company Limited

Consolidated income statement for the year ended December 31, 2005

	Note	2005 RMB'000	2004 RMB'000
Turnover	5	81,842	142,607
Cost of sales		(70,640)	(126,214)
Gross profit		11,202	16,393
Other incomes		6,963	7,879
Distribution costs		(2,904)	(6,487)
Administrative costs		(30,115)	(40,710)
Operating loss		(14,854)	(22,925)
Finance costs		(24,563)	(32,545)
Other non-operating items	6	(12,767)	7,829
Share of results from associates		136	59
Loss before taxation	7	(52,048)	(47,582)
Income tax	8	(1,079)	536
Loss for the year		(53,127)	(47,046)
Attributable to :			
Equity holders of the parent		(57,023)	(47,923)
Share of loss for minority interests		3,896	877
		(53,127)	(47,046)
Loss per share to equity holders of the parent - basic		RMB(0.198)	RMB(0.166)

The calculation of the basic loss per share is based on the current year's loss of RMB57,023,000 (2004 - RMB47,923,000) 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, 2005

	Note	2005 RMB'000	2004 RMB'000
Non-current assets			
Property, plant and equipment	9	9,443	112,125
Land use rights – non-current portion	10	-	7,363
Construction in progress	11	-	1,702
Interests in unconsolidated subsidiaries	12	(1,019)	(1,019)
Interests in associates	13	4,385	7,108
Long-term investments	14	11,112	11,112
		23,921	138,391
Current assets			
Land use rights – current portion	10	-	589
Inventories	15	2,000	29,205
Account receivables	16	-	49,007
Other receivables and prepayments	17	13,553	62,821
Tax recoverable		-	275
Note receivables		-	189
Short-term investments		-	44
Cash and bank balances		86	17,227
		15,639	159,357
Total assets		39,560	297,748
Capital and reserves			
Share capital	18	288,420	288,420
Reserves		(1,937,399)	(1,880,376)
Equity attributable to equity holders of the parent		(1,648,979)	(1,591,956)
Minority interests	24	-	77,851
Total equity		(1,648,979)	(1,514,105)
Current liabilities			
Bank and other loans	19,24	519,800	575,611
Account payables		-	27,209
Other payables and accrued charges	20	1,168,739	1,209,033
		1,688,539	1,811,853
Total equity and liabilities		39,560	297,748

The financial statements on pages 2 to 30 were approved and authorised for issue by the board of directors on March 30, 2006 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, 2005

	Share capital RMB'000	Capital reserve RMB'000	Reserves 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
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)
Loss for the year of 2005	-	-	-	-	-	(57,023)	(57,023)	(57,023)
As at December 31, 2005	288,420	298,744	78,894	18,789	40,621	(2,374,447)	(1,937,399)	(1,648,979)

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 a 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 thereserve 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 taxationto 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 not be less than 25% of the 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 payable.

Guangdong Sunrise Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flow from operating activities		
Loss before taxation	(52,048)	(47,582)
Adjustment items :		
Interest income	(39)	(78)
Dividend income	-	(2)
Interest expense	30,774	32,357
Depreciation of property, plant and equipment	6,436	11,856
Amortisation of land use rights	377	589
Impairment loss provision on property, plant and equipment	-	961
(Profit)/loss on disposal of property, plant and equipment	330	(2,636)
Impairment loss provision on unconsolidated subsidiaries	1,130	-
Loss on disposal of a nominated subsidiary	14,257	-
Impairment loss provision on interests in associates	3,181	2,690
Share of results from associates	(136)	(59)
Profit on disposal of long-term investments	-	(2,061)
Impairment loss provision on long-term investments	2,690	-
Reversal for inventory obsolescence	-	(3,469)
Reversal for doubtful debts on account receivables	-	(3,755)
Provision for doubtful debts on other receivables	-	22,365
Bad debts written off for other receivables	-	8,695
Reversal for loss on guarantees	(8,821)	(6,781)
Net operating cash inflow/(outflow) before movements in working capital	(1,869)	13,090
Decrease in amounts due to unconsolidated subsidiaries	-	(4,150)
Decrease in amounts due to associates	-	(373)
Decrease in inventories	5,114	5,432
(Increase)/decrease in account receivables	3,203	(7,961)
Decrease in other receivables and prepayments	37,635	34,806
Decrease in note receivables	189	441
Decrease in account payables	(607)	(2,656)
Increase/(decrease) in other payables and accrued charges	(16,380)	6,731
Increase/(decrease) in note payables	10,225	(2,880)
Cash inflow from operating activities before interest and tax payments	37,510	42,480

(to be cont'd)

Guangdong Sunrise Holdings Company Limited

Consolidated cash flow statement for the year ended December 31, 2005

(cont'd)

	Note	2005 RMB'000	2004 RMB'000
Cash inflow from operating activities before interest and tax payments		37,510	42,480
Interest paid		(690)	(724)
Corporate and profits tax refunded/(paid)		(735)	719
Net cash inflow from operating activities		36,085	42,475
Investing activities			
Interest received		39	78
Dividend received		-	2
Purchases of property, plant and equipment		(85)	(5,860)
Proceeds from disposal of property, plant and equipment		306	10,971
(Increase)/decrease in construction in progress		172	(5,112)
Net cash outflow from disposal of a nominated subsidiary	21	(7,932)	-
Net cash outflow from de-consolidation of a subsidiary	22	(76)	-
Net cash outflow from de-consolidation of a nominated subsidiary	23	(56)	-
Proceeds from disposal of long-term investments		-	2,061
Net cash inflow/(outflow) from investing activities		(7,632)	2,140
Financing activities			
Bank and other loans repaid	24	(41,811)	(54,078)
Dividend paid to minority shareholders	24	(3,783)	(724)
Net cash outflow from financing activities		(45,594)	(54,802)
Decrease in cash and cash equivalents		(17,141)	(10,187)
Cash and cash equivalents as at beginning of the year		17,227	27,414
Cash and cash equivalents as at end of the year		86	17,227

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, 2005 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, 2005, the Group's accumulated loss amounted to RMB2,374,447,000. Moreover, the Group had outstanding liabilities on bank and other loans, account payables and other payables, etc. totalling RMB1,688,539,000. 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 the entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

3. Basis of consolidation (cont'd)

The consolidated financial statements incorporate the financial statements of the Company and of its subsidiaries (the "Group") made up to December 31 each year. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

(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. As at December 31, 2005, the Company held the following subsidiaries, all of which are incorporated in the PRC :

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 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

* *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.*

(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

3. Basis of consolidation (cont'd)

(b) Associates (cont'd)

Name	Place of establishment/ operation	Attributable equity interest	Principal activities
Shenzhen Taiyang TCCP Co. Ltd.	PRC	34%	Production, transportation and installation of steel, concrete tube
Shenzhen Lionda Industrial Trading Co. Ltd.	PRC	32% *	Import and export trading and property management
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.
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

* *Nominated subsidiary included for consolidation last year but ceased business during this year*
** *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) Turnover

Turnover represents the proceeds from the sales of goods, net of returns, discounts and sales tax, supplied to customers outside the Group. Turnover and profit of the Group are from the manufacture and takings of catering services, both derived within the PRC territory.

(b) Property, plant, equipment and depreciation

Property, plant and equipment are stated at cost or valuation less accumulated depreciation. Depreciation of property, plant and equipment is provided using the straight-line method over the estimated useful lives, taking into account the estimated residual value of 5% of the cost or revalued amount, as follows :

Buildings	20-50 years
Plant and machinery	5-10 years
Office equipment	5 years
Motor vehicles	5 years

(c) Land use rights

The cost of land use rights is amortised on a straight-line basis over the lease term.

(d) Construction in progress

Construction in progress represents the factory and office buildings under construction and is stated at cost. This includes costs of construction, machinery and furniture as well as interest charges and exchange differences arising from borrowings that are used to finance the construction during the construction period. No depreciation is provided on construction in progress prior to its completion. However, for construction in progress that are pending for further process and are functionally or technologically obsolete, their carrying amounts are reduced to their recoverable amounts by reference to the impairment loss.

4. Principal accounting policies (cont'd)

(e) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

4. Principal accounting policies (cont'd)

(f) Investments (cont'd)

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Other unlisted long-term investments with no reference to fair value are stated at cost less provision for diminution in value that is other than temporary.

(g) 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, directly attributable overheads and interest cost capitalised during the period of development. Net realisable value represents the estimated selling price less related expenses.

(h) 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.

4. Principal accounting policies (cont'd)

(h) Revenue recognition (cont'd)

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.

(i) Account receivables

Account receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(j) Account payables

Account payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(k) Cash and cash equivalents

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

(l) Bank borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

(m) 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)

(n) Foreign currency transactions

The financial statements are expressed in Renminbi. Transactions in foreign currencies are translated at the rates prevailing at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated at the rates prevailing at the balance sheet date. Exchange differences that are attributable to the translation of foreign currency borrowings for the purpose of financing the construction of factory and office buildings, plant and machinery and other major fixed assets for periods prior to their being in a condition to enter into services are included in the cost of the fixed assets concerned. Other exchange differences are dealt with in the consolidated income statement.

(o) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

i) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

ii) The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

4. Principal accounting policies (cont'd)

(p) Impairment loss

As 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.

(q) 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.

(r) 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.

4. Principal accounting policies (cont'd)

(r) Taxation (cont'd)

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

	2005 RMB'000	2004 RMB'000
Sale of merchandises	81,842	140,247
Takings from catering services	-	2,360
	81,842	142,607

6. Other non-operating items

	2005 RMB'000	2004 RMB'000
Impairment loss provision on property, plant and equipment	-	(961)
Profit/(loss) on disposal of property, plant and equipment	(330)	2,636
Impairment loss provision on unconsolidated subsidiaries	(1,130)	-
Loss on disposal of a nominated subsidiary	(14,257)	-
Impairment loss provision on interests in associates	(3,181)	(2,690)
Impairment loss provision on long-term investments	(2,690)	-
Profit on disposal of long-term investments	-	2,061
Dividend income	-	2
Reversal for loss on guarantees	8,821	6,781
	(12,767)	7,829

7. Loss before taxation

	2005 RMB'000	2004 RMB'000
The Group's loss before taxation is arrived at after charging :		
Auditors' remuneration	500	600
Directors' emoluments	-	-
Depreciation of property, plant and equipment	6,436	11,856
Amortisation of land use rights	377	589
Interest expense	30,774	32,357
Provision for doubtful debts on other receivables	-	22,365
Bad debts written off for other receivables	-	8,695
Staff costs	4,919	4,942
And after crediting :		
Interest income	39	78
Rental income	6,786	7,995
Reversal for inventory obsolescence	-	3,469
Reversal for doubtful debts on account receivables	-	3,755

8. Taxation

	2005 RMB'000	2004 RMB'000
Income tax		
- Company and subsidiaries	1,010	(579)
- Associates	69	43
	1,079	(536)

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 loss at applicable tax rates is as follows :

	2005 RMB'000	2004 RMB'000
Loss before taxation	(52,048)	(47,582)
Tax at the applicable income tax rate of 15% (2004 – 15%)	(7,807)	(7,137)
Tax effect of :		
- disallowable expenses	63	-
- utilisation of tax losses previously unrecognised	(24)	-
- unrecognised tax losses	8,847	6,601
Actual tax expense/(income)	1,079	(536)

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, 2005, the net unprovided deferred tax asset was RMB249,567,000 (2004 - RMB240,778,000).

9. Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Office equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost/carrying amount					
As at January 1, 2004	117,440	125,624	9,672	15,090	267,826
Additions/transfer from construct in progress	4,302	5,257	225	1,297	11,081
Disposals	(30,254)	(324)	(114)	(1,168)	(31,860)
As at December 31, 2004	91,488	130,557	9,783	15,219	247,047
Disposal of a nominated subsidiar	(75,137)	(130,557)	(5,658)	(6,745)	(218,097)
Decrease from de-consolidation of a nominated subsidiary	-	-	(188)	(305)	(493)
Additions	-	-	85	-	85
Disposals	(1,757)	-	-	-	(1,757)
As at December 31, 2005	14,594	-	4,022	8,169	26,785
Accumulated depreciation					
As at January 1, 2004	(44,427)	(81,588)	(8,163)	(12,413)	(146,591)
Additions	(4,714)	(6,491)	(196)	(455)	(11,856)
Disposals	22,557	245	89	634	23,525
As at December 31, 2004	(26,584)	(87,834)	(8,270)	(12,234)	(134,922)
Disposal of a nominated subsidiar	21,472	91,968	4,603	4,462	122,505
Decrease from de-consolidation of a nominated subsidiary	-	-	148	242	390
Additions	(1,912)	(4,134)	(157)	(233)	(6,436)
Disposals	1,121	-	-	-	1,121
As at December 31, 2005	(5,903)	-	(3,676)	(7,763)	(17,342)
Net book value					
As at December 31, 2005	8,691	-	346	406	9,443
As at December 31, 2004	64,904	42,723	1,513	2,985	112,125

10. Land use rights

	2005 RMB'000	2004 RMB'000
Cost		
Balance as at January 1, 2005	11,607	12,568
Impairment loss provision	-	(961)
Disposal of a nominated subsidiary	(11,319)	-
Decrease from de-consolidation of a nominated subsidiary	(288)	-
Balance as at December 31, 2005	-	11,607
Accumulated amortisation		
Balance as at January 1, 2005	(3,655)	(3,066)
Additions	(377)	(589)
Disposal of a nominated subsidiary	3,744	-
Decrease from de-consolidation of a nominated subsidiary	288	-
Balance as at December 31, 2005	-	(3,655)
Net book value	-	7,952
Current portion	-	(589)
Non-current portion	-	7,363

11. Construction in progress

	2005 RMB'000	2004 RMB'000
Balance as at January 1, 2005	1,702	1,811
Additions	248	5,592
Disposals	(420)	(480)
Disposal of a nominated subsidiary	(1,530)	-
Transfer to property, plant and equipment	-	(5,221)
Balance as at December 31, 2005	-	1,702

12. Interests in unconsolidated subsidiaries

	2005 RMB'000	2004 RMB'000
Cost of unconsolidated subsidiaries (*)	33,218	32,088
Impairment loss provision	(33,218)	(32,088)
	-	-
Amounts due to unconsolidated subsidiaries (*)	(1,019)	(1,019)
	(1,019)	(1,019)

(*) *These subsidiaries 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.*

13. Interests in associates

	2005 RMB'000	2004 RMB'000
Share of net assets of associates	15,898	18,130
Impairment loss provision	(11,513)	(11,022)
	4,385	7,108

14. Long-term investments

		2005 RMB'000	2004 RMB'000
"A" shares of companies listed in the PRC, at cost	(*)	10,000	10,000
Other unlisted equity investments, at cost		34,434	29,055
		44,434	39,055
Impairment loss provision		(33,322)	(27,943)
		11,112	11,112

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

15. Inventories

	2005 RMB'000	2004 RMB'000
Raw materials	-	13,523
Work in progress	-	3,522
Finished goods	-	13,282
Properties held for sale	22,913	22,913
	22,913	53,240
Provision for inventory obsolescence	(20,913)	(24,035)
	2,000	29,205

16. Account receivables

	2005 RMB'000	2004 RMB'000
Amount receivables	-	52,760
Provision for doubtful debts	-	(3,753)
	-	49,007

As at December 31, 2005, the aging of amount receivables is analysed as follows :

	2005 RMB'000	2004 RMB'000
Within one year	-	51,032
Over one year but within two years	-	339
Over two years but within three years	-	325
Over three years	-	1,064
	-	52,760

17. Other receivables and prepayments

	2005 RMB'000	2004 RMB'000
Prepayments	-	1,129
Other receivables	339,510	391,008
	339,510	392,137
Provision for doubtful debts	(325,957)	(329,316)
	13,553	62,821

As at December 31, 2005, the aging of other receivables and prepayments is analysed as follows :

	2005 RMB'000	2004 RMB'000
Within one year	6,578	28,502
Over one year but within two years	2,947	31,230
Over two years but within three years	27,323	94,009
Over three years	302,662	238,396
	339,510	392,137

18. Share capital

	2005 RMB'000	2004 RMB'000
Registered, issued and fully paid, at par value of RMB1 each		
208,560,000 (2004 - 208,560,000) domestic shares	208,560	208,560
40,260,000 (2004 - 40,260,000) "A" shares	40,260	40,260
39,600,000 (2004 - 39,600,000) "B" shares	39,600	39,600
	288,420	288,420

19. Bank and other loans

	2005 RMB'000	2004 RMB'000
Bank loans - unsecured	200,255	412,019
Bank loans - secured	-	19,900
Other loans	319,545	143,692
	519,800	575,611

As at December 31, 2005, the aging of bank and other loans is analysed as follows :

	2005 RMB'000	2004 RMB'000
Overdue amounts	519,800	539,141
Premature amounts	-	36,470
	519,800	575,611

20. Other payables and accrued charges

	2005 RMB'000	2004 RMB'000
Amounts received in advance	-	2,341
Accrued expenses	286,296	258,969
Anticipated commitments and liabilities	700,492	696,463
Accrued staff welfare	319	714
Others	181,632	250,546
	1,168,739	1,209,033

21. Disposal of a nominated subsidiary

	2005 RMB'000	2004 RMB'000
Property, plant and equipment	95,592	-
Land use rights	1,530	
Construction in progress	7,575	-
Inventories	22,091	-
Account receivables	45,804	-
Other receivables and prepayments	3,190	-
Cash and bank balances	21,506	-
Short-term bank loans	(14,000)	-
Account payables	(26,556)	-
Other payables and accrued charges	(47,472)	-
Note payables	(10,225)	-
	99,035	
Interests in associates	(71,204)	-
Minority interests	(14,257)	-
Cash received from disposal of a nominated subsidiary	13,574	-
Net cash outflow from disposal of a nominated subsidiary	(7,932)	-

22. De-consolidation of a subsidiary

	2005 RMB'000	2004 RMB'000
Other receivables and prepayments	1,325	-
Other payables and accrued charges	(271)	-
	1,054	-
Cost of subsidiary not consolidated	(1,130)	-
Net cash outflow from subsidiary not consolidated	(76)	-

23. De-consolidation of a nominated subsidiary

	2005 RMB'000	2004 RMB'000
Property, plant and equipment	103	-
Short-term investments	44	-
Other receivables and prepayments	15,939	-
Account payables	(46)	-
Other payables and accrued charges	(6,155)	-
	9,885	-
Minority interests	(6,760)	-
Cost of a nominated subsidiary not consolidated	(3,181)	-
Net cash outflow from a nominated subsidiary not consolidated	(56)	-

24. Cash flows from financing

	Bank and other loans RMB'000	Minority interests RMB'000
Balance as at beginning of the year	575,611	77,851
Cash outflow from financing	(41,811)	-
Disposal of a nominated subsidiary	(14,000)	(71,204)
Decrease from de-consolidation of a nominated subsidiary	-	(6,760)
Dividend paid to minority shareholders	-	(3,783)
Minority interests' share of results	-	3,896
Balance as at end of the year	519,800	-

25. Lease commitments

The Group earned rental income of RMB6,786,000 (2004 - RMB7,995,000) during the year. As at December 31, 2005, the total future minimum lease receipts under non-cancellable operating leases are receivable as follows :

	2005 RMB'000	2004 RMB'000
Within one year	-	703
In the second to fifth years inclusive	-	2,613
	-	3,316

26. Related party transactions

As at December 31, 2005, the Group had balances with related companies that arose from the normal course of the business operations :

	2005 RMB'000	2004 RMB'000
Account receivables before provision :		
Other related companies	293,057	308,859
Account payables :		
Holding company	7,907	67,988
Other related companies	4,523	6,039
	12,430	74,027

Guarantees

As at December 31, 2005, the Group had guarantees on banking facilities granted to related companies amounting to RMB1,404,714,000 (2004 - RMB1,416,716,000).

27. Pledge of assets

As at December 31, 2005, the Group did not have any pledge (2004 - buildings with a net book value of RMB41,267,000 pledged to banks to secure general banking facilities).

28. Contingent liabilities

As at December 31, 2005, the Group had the following contingent liabilities :

	2005 RMB'000	2004 RMB'000
Potential liabilities from court action in relation to the guarantees given by the Group	144,837	99,358
Guarantees to financial institutions in respect of the Group's facilities	837,179	992,560
	982,016	1,091,918

29. Ultimate holding company

Shenzhen Lionda Group Co., Ltd. holds 66.36% equity interest in the Company and is considered as 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

	Loss attributable to shareholders RMB'000	Net asset value RMB'000
As reported by PRC Certified Public Accountants	(57,182)	(1,649,171)
Adjustments to conform to IFRS		
Prepayments amortised	159	-
Housing welfare fund transfer	-	192
As restated in conformity with IFRS	(57,023)	(1,648,979)

31. Financial instruments

Financial assets of the Group include cash and bank balances and other receivables and prepayments. Financial liabilities include bank and other loans and other payables and accrued charges.

(a) Credit risk

Cash and bank balances : As at December 31, 2005, the Group's cash and bank balances were represented by cash.

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. Critical judgements in applying the accounting policies

In the process of applying the accounting policies, management has made the judgements that may have significant effect on the amounts recognised in the financial statements.

Apart from the risk factors relating to the financial instruments as mentioned in note 31, there is no other key source of estimation or uncertainty that may have a significant effect on the financial statements.

33. Language

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