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Arko Holdings Plc

REPORT AND FINANCIAL STATEMENTS

31 December 2005



Arko Holdings Plc

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Arko Holdings Plc

DIRECTORS, SECRETARY AND ADVISERS

DIRECTORS	<p>QIN Shun Chao (<i>Chairman</i>) SHI Yan (<i>Executive Director</i>) LEUNG Suk Ching, Angela (<i>Executive Director</i>) ZHANG Jing (<i>Finance Director</i>) LIU Sheng Rong (<i>Non Executive Director</i>) David THOMAS (<i>Non Executive Director</i>)</p>
COMPANY SECRETARY	LAM Ngar Yan
REGISTERED OFFICE	2 Bloomsbury Street London WC1B 3ST
COMPANY OFFICE	34/F, Sunshine Plaza 353 Lockhart Road Wanchai, Hong Kong Telephone: +852 2219 9999 Facsimile +852 2522 9399 Company website: www.arkoholdings.com
PRINCIPAL BANKERS	Standard Chartered Bank Plc 15 Queen's Road Central, Hong Kong
REGISTRARS	Capita Registrars Northern House Woodsome Park, Fenay Bridge Huddersfield, West Yorkshire HD8 0LA
NOMINATED ADVISER	Nabarro Wells & Co. Limited Saddlers House Gutter Lane, London EC2V 6HS
STOCKBROKERS	Keith, Bayley, Rogers & Co. Limited Sophia House 76-80 City Road London EC1Y 2EQ
PRINCIPAL AUDITORS	Baker Tilly Chartered Accountants 2 Bloomsbury Street London WC1B 3ST
OVERSEAS AUDITORS	<p>Lee & Yu Certified Public Accountants Suite 1303-4, 13/F, Chinachem Johnston Plaza 178-186 Johnston Road Wanchai, Hong Kong</p> <p>Guangshui Hongxin Certified Public Accountants Limited Sanlihe, Guangshui, Hubei, China</p>

Arko Holdings Plc

CHAIRMAN'S STATEMENT

for the year ended 31 December 2005

OVERVIEW

I am pleased to make my report to you for the financial year ended 31 December 2005.

2005 has been another difficult year with continuing losses at the Company's principal subsidiary, Hubei Changzhou Power Development Co. Limited (which operates the power generation plant), although our two other major operating subsidiaries, Keen Chance Terminal (GZ) Company Limited and Arko Logistics Limited, continue to contribute profits to the Group.

To stem operating losses, the Company has taken further measures to reduce overheads, including the reduction of headcount in Hong Kong, the implementation of a new department cost-control scheme and a new remuneration policy. The Board believes that the actions taken will improve the Company's financial strength and allow available resources to be concentrated more effectively on restoring profitability.

FINANCIAL OVERVIEW

During the 12 months ended 31 December 2005, the Group made a loss of US\$5,907,500 on turnover of US\$8,093,986, after allowing for amortisation of goodwill and depreciation of US\$3,722,529 and an exceptional write off of US\$4,858,465. Whilst this loss was disappointing it is driven by two factors; firstly, income generated from the power plant cannot cover the depreciation cost of that plant, and secondly, the decrease in the profit margin achieved in the container terminal business. The exceptional write off arises as a result of the irrecoverability of certain trade debts which arose in connection with discontinued trading activities. The loss before tax and the loss per share for the period amounted to US\$5,566,150 and US0.2985 cents respectively, the comparative figures for 2004 being US\$7,195,665 and US0.3624 cents.

During 2005 revenues from terminal and shipping logistics activities amounted to US\$8,093,986 reflecting the step change in operating performance following the re-structuring of the Company in 2004, which I reported on in my last annual report.

As at 31 December 2005 equity shareholders' funds were US\$47,565,739.

DIVIDENDS

The Board does not recommend the payment of a dividend (2004: nil).

OPERATIONAL REVIEW

Market conditions in the terminal and shipping logistics sectors in mainland China remained difficult and challenging. Handling of TEUs was up by 30% and turnover up by 34.4% compared to 2004 but overall contribution remained broadly unchanged due to increases in fixed costs and the effect of competition on pricing. Market conditions in the terminal and shipping logistics sectors in mainland China remained difficult and challenging. Margins remained under pressure from increasing and intense competition for market share to fill excess industry capacity. Management of the container terminal have taken a number of measures to reduce operating and administrative costs in 2006, and at the same time TEUs are ahead of the comparative period in 2005.

As mentioned in my interim report, an agreement has been reached between the power plant company and a PRC privately-owned enterprise. The operation of the power plant has been contracted to this PRC privately-owned enterprise since July 2005 and in return the Company will receive a fixed rental for a term of five years. Having considered the past unsatisfactory performance of the power plant, the Board is of the view that this arrangement is in the best interests of the Company.

Arko Holdings Plc

CHAIRMAN'S STATEMENT

for the year ended 31 December 2005

PERSONNEL

Having served the Company for almost three years, Mr Shi Yan, Finance Director, has decided to retire from the board for health reasons and he will not be seeking re-appointment at the forthcoming Annual General Meeting. The new Finance Director is Mr Zhang Jing who joined the board on 1 August 2005.

OUTLOOK

After recent years of considerable change, the Board views the future with cautious optimism. Market conditions in 2006 continue to be challenging and we expect to achieve increased volumes but with pressure on pricing continuing. The Board will continue to renew any opportunities and possibilities that will improve the performance of the Company, in particular, the possible introduction of strategic partners.

APPRECIATION

The Board would again like to thank all staff for the commitment, professionalism and loyalty they have shown during the last twelve months.

Qin Shun Chao
Chairman



27 June 2006

Arko Holdings Plc

DIRECTORS' REPORT

for the year ended 31 December 2005

The directors submit their report and the financial statements of Arko Holdings plc for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the company during the year were shipping and logistics.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

A review of the business and future developments is given in the Chairman's statement on pages 2 and 3.

DIVIDENDS

The directors are unable to recommend the payment of a dividend (2004: Nil).

DIRECTORS

The following directors have held office since 1 January 2005 unless otherwise stated:

LEUNG Suk Ching, Angela	
LIU Sheng Rong	(appointed 1 August 2005)
QIN Shun Chao	
SHI Yan	
David THOMAS	
ZHANG Jing	(appointed 1 August 2005)

Lawrence Wai Chung LAI resigned on 22 July 2005.

DIRECTORS' INTERESTS IN THE SHARES OF THE COMPANY

The directors who served the company during the period together with their beneficial interest, including family holdings, in the shares of the company were as follows:

	Ordinary shares	
	At 31 December 2005	At 1 January 2005 (or date of appointment)
LEUNG Suk Ching, Angela	870,000	870,000
LIU Sheng Rong (appointed 1 August 2005)	-	-
QIN Shun Chao	-	-
SHI Yan	-	-
David THOMAS	-	-
ZHANG Jing (appointed 1 August 2005)	-	-

Arko Holdings Plc

DIRECTORS' REPORT

for the year ended 31 December 2005

CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Arko Holdings plc support the principles of good corporate governance. The company has established an audit committee and a remuneration committee, which comprises two independent non-executive directors, Mr David Thomas and Mr Liu Shengrong. The primary duties of the audit committee are to review and supervise the financial reporting and internal control procedures of the Group.

EMPLOYEES

Group management are committed to training and motivating staff, and offering promotional prospects where possible. Where appropriate, Company information is shared with staff, and employees are encouraged to work towards a continual improvement in the Group's performance.

SUBSTANTIAL INTERESTS

At the date of this report, the company had been notified of the following substantial interest in the shares of the company:

Chin Dynasty Foundation - 1,851,776,422 shares in the company (92.06%) through Keen Lloyd Holdings Limited, a company incorporated in the British Virgin Islands.

CREDITOR PAYMENT POLICY

In order to maintain good relationships with major suppliers, it is the Group's policy to settle payment to creditors within the negotiated credit terms. However the Group's creditor days in 2005 remained at approximately 75 days.

AUDITORS

A resolution to re-appoint Baker Tilly, Chartered Accountants, as auditors will be put to the members at the annual general meeting.

By order of the board

Qin Shun Chao
Chairman

27 June 2006



Arko Holdings Plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the parent Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- a. select suitable accounting policies and then apply these consistently;
- b. make judgements and estimates that are reasonable and prudent;
- c. state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Arko Holdings Plc

INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF ARKO HOLDINGS PLC

We have audited the financial statements on pages 8 to 30.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Chairman's Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the affairs of parent Company and the Group at 31 December 2005 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

BAKER TILLY
Registered Auditor
Chartered Accountants
2 Bloomsbury Street
London WC1B 3ST

27 June 2006

Arko Holdings Plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT for the year ended 31 December 2005

	Notes	2005 US\$	2004 US\$
TURNOVER	1		
Continuing operations		8,093,986	16,056,581
Discontinued operations		-	27,639,250
		<u>8,093,986</u>	<u>43,695,831</u>
Cost of sales		(4,783,470)	(37,593,388)
GROSS PROFIT		<u>3,310,516</u>	<u>6,102,443</u>
Other operating income	2	809,137	201,774
Net operating expenses			
- exceptional		(4,858,465)	(9,555,999)
- other		(4,586,887)	(3,332,972)
OPERATING (LOSS)/PROFIT	3	<u>(5,325,699)</u>	
Continuing operations		(467,234)	(6,895,786)
Discontinued operations		(4,858,465)	311,032
		<u>(5,325,699)</u>	<u>(6,584,754)</u>
Interest receivable	5	-	406,594
Interest payable	6	(240,451)	(1,017,505)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(5,566,150)</u>	<u>(7,195,665)</u>
Taxation	7	(183,757)	(378,151)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		<u>(5,749,907)</u>	<u>(7,573,816)</u>
Minority interests		(157,593)	405,234
LOSS FOR THE YEAR TRANSFERRED FROM RESERVES	22	<u>(5,907,500)</u>	<u>(7,168,582)</u>
		US cents	US cents
LOSS PER SHARE			
Basic	8	(0.2985)	(0.3624)
Diluted		(0.2985)	(0.3624)

There were no material differences between the reported profit and historical cost profit on ordinary activities before taxation in either of the above financial years.

Arko Holdings Plc

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES for the year ended 31 December 2005

	2005 US\$	2004 US\$
LOSS FOR THE FINANCIAL YEAR	(5,907,500)	(7,168,582)
Currency translation gains and losses on foreign currency net investment	(247,768)	115,280
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	<u>(6,155,268)</u>	<u>(7,053,302)</u>

Arko Holdings Plc

BALANCE SHEETS

for the year ended 31 December 2005

	Notes	Group 2005 US\$	Group 2004 US\$	Company 2005 US\$	Company 2004 US\$
FIXED ASSETS					
Intangible asset	9	22,807,051	24,201,053	-	-
Tangible assets	10	33,878,745	36,097,832	-	-
Investments in subsidiaries	12	-	-	56,014,662	56,014,662
Investments in associate	12	12,082	12,082	-	-
		<u>56,697,878</u>	<u>60,310,967</u>	<u>56,014,662</u>	<u>56,014,662</u>
CURRENT ASSETS					
Stocks and work in progress	13	144,686	263,971	-	-
Debtors	14				
- due within one year		8,809,812	12,711,830	26,111	444,218
- due after more than one year		-	55,580	-	-
Cash at bank and in hand		653,062	421,203	147,978	104,052
		<u>9,607,560</u>	<u>13,452,584</u>	<u>174,089</u>	<u>548,270</u>
CREDITORS: amounts falling due within one year	15a	(3,494,156)	(4,997,141)	(1,590,462)	(1,480,517)
NET CURRENT ASSETS/(LIABILITIES)		<u>6,113,404</u>	<u>8,455,443</u>	<u>(1,416,373)</u>	<u>(932,247)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>62,811,282</u>	<u>68,766,410</u>	<u>54,598,289</u>	<u>55,082,415</u>
CREDITORS: amounts falling due after more than one year	15b	(2,701,923)	(2,694,844)	-	-
NET ASSETS		<u>60,109,359</u>	<u>66,071,566</u>	<u>54,598,289</u>	<u>55,082,415</u>
CAPITAL AND RESERVES					
Called up share capital	20	14,921,520	14,921,520	14,921,520	14,921,520
Share premium	21	15,662,031	15,662,031	15,662,031	15,662,031
Merger reserve	21	26,042,970	26,042,970	26,042,970	26,042,970
Other reserve	21	1,681,573	1,681,573	-	-
Profit and loss account	21	(10,742,355)	(4,587,087)	(2,028,232)	(1,544,106)
EQUITY SHAREHOLDERS' FUNDS	22	<u>47,565,739</u>	<u>53,721,007</u>	<u>54,598,289</u>	<u>55,082,415</u>
MINORITY INTERESTS		<u>12,543,620</u>	<u>12,350,559</u>	<u>-</u>	<u>-</u>
		<u>60,109,359</u>	<u>66,071,566</u>	<u>54,598,289</u>	<u>55,082,415</u>

Approved and authorised for issue by the board on 27 June 2006 and signed on its behalf by:

QIN Shun Chao
Director



ZHANG Jing
Director



Arko Holdings Plc

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31 December 2005

	<i>Notes</i>	2005 US\$	2004 US\$
Net cash inflow from operating activities	17	1,548,244	2,135,322
Returns on investments and servicing of finance	18	(240,451)	(610,911)
Taxation		(163,011)	(991,678)
Capital expenditure	18	176,062	(1,411,454)
Acquisitions and disposals	18	-	1,080,754
CASH INFLOW BEFORE FINANCING		<u>1,320,844</u>	<u>202,033</u>
Financing	18	(1,088,985)	(30,139)
INCREASE IN CASH IN THE YEAR		<u>231,859</u>	<u>171,894</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2005 US\$	2004 US\$
Increase in cash in the period	231,859	171,894
Cash outflow from decrease in lease financing	1,735	22,183
Net cash outflow/(inflow) from net repayment/(receipt) of loan	1,089,311	(11,576)
Cash (inflow)/outflow from (increase in)/repayment of advances from investors	(2,061)	417,599
Change in net debt resulting from cash flows	<u>1,320,844</u>	<u>600,100</u>
NET DEBT AT 1 JANUARY 2005	(3,369,705)	(3,969,175)
NET DEBT AT 31 DECEMBER 2005	19 <u>(2,048,861)</u>	<u>(3,369,705)</u>

Arko Holdings Plc

ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial information has been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

BASIS OF CONSOLIDATION

On the acquisition of a subsidiary, the assets and liabilities of that subsidiary are recorded at their fair value, reflecting their condition at the date of acquisition.

The consolidated profit and loss account and consolidated balance sheet include the financial statements of the Company and its subsidiary undertakings up to 31 December. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated on consolidation.

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented in respect of the Company.

TURNOVER

Turnover comprises the invoiced value of sales relating to the period in respect of operation of a terminal and provision of shipping logistic services.

GOODWILL

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and will be amortised through the profit and loss account over its estimated useful economic life of 20 years on a straight line basis.

Provision is made for any impairment in the carrying value of the goodwill to the extent that the asset's recoverable value in use is reduced below its carrying value.

TANGIBLE ASSETS

Expenditure on additions and improvements is capitalized as incurred. Fixed assets are included at historical cost less accumulated depreciation and any impairment losses.

Tangible fixed assets, other than construction in progress, are depreciated over their estimated useful lives on a straight line basis. The following annual rates of depreciation have been used.

Land and buildings	20-30 years
Plant and machinery	10-20 years
Equipment, furniture and fixtures	5-10 years
Motor vehicles	5-10 years
Oil storage tanks	15 years
Vessels	10 years

Construction in progress represents a building under construction, which is stated at cost less any impairment. Cost comprises the direct cost of construction. Construction in progress is reclassified to the appropriate category of tangible fixed assets when completed and ready for use.

STOCK

Stock is valued at the lower of cost and estimated net realisable value.

Arko Holdings Plc

ACCOUNTING POLICIES

FOREIGN CURRENCIES

Monetary assets and liabilities expressed in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Revenues, costs and non-monetary assets are translated at the exchange rates ruling at the transaction date.

Profit and losses arising from currency transactions and on settlement of amounts receivable and payable in foreign currencies are dealt with through the profit and loss account.

Differences on exchange arising from the translation of the assets, liabilities and results of foreign subsidiaries are taken directly to exchange reserve.

DEFERRED TAXATION

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

LIQUID RESOURCES

In accordance with FRS 1 *Cash flow statements*, for cash flow purposes, cash includes net cash in hand and bank deposits payable on demand within one working day, and liquid resources include all of the Group's other bank deposits.

PENSION COSTS

The Group contributes to defined contribution pension schemes including the Hong Kong Mandatory Provident Fund Scheme and the People's Republic of China Central Pension Scheme. Contributions are charged to the profit and loss account in the period as incurred.

LEASED ASSETS AND OBLIGATIONS

Where assets are financed by leasing agreements that give rights approximating to ownership ("finance leases"), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as obligations to the lessor.

Lease payments are treated as consisting of capital and interest elements, and the interest is charged to the profit and loss account in proportion to the remaining balance outstanding.

All other leases are "operating leases" and the annual rentals are charged to profit and loss on a straight line basis over the lease term.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

1 SEGMENTAL ANALYSIS

	Turnover		Operating (loss)/profit		Net assets/(liabilities)	
	2005	2004	2005	2004	2005	2004
	US\$	US\$	US\$	US\$	US\$	US\$
Continuing operations:						
Terminal and shipping logistics	8,076,571	7,356,794	2,463,348	286,748	27,702,720	24,961,672
Power plant	-	8,699,787	(1,228,426)	(1,017,694)	27,694,570	29,689,890
Trading and others	17,415	-	(1,702,156)	(3,763,555)	8,481,621	10,360,821
Mining	-	-	-	(2,401,285)	1,088,913	1,059,183
	<u>8,093,986</u>	<u>16,056,581</u>	<u>(467,234)</u>	<u>(6,895,786)</u>	<u>64,967,824</u>	<u>66,071,566</u>
Discontinued operations:						
Trading and others	-	27,639,250	4,858,465	311,032	(4,858,465)	-
GROUP	<u>8,093,986</u>	<u>43,695,831</u>	<u>(5,325,699)</u>	<u>(6,584,754)</u>	<u>60,109,359</u>	<u>66,071,566</u>
Analysis by origin:						
Hong Kong	1,227,130	30,456,098	(1,245,673)	(1,710,376)	24,221,058	26,501,322
People's Republic of China, excluding Hong Kong	6,866,856	13,239,733	(3,918,817)	(4,591,806)	36,925,369	40,531,565
United Kingdom	-	-	(161,209)	(282,572)	(1,037,068)	(961,321)
GROUP	<u>8,093,986</u>	<u>43,695,831</u>	<u>(5,325,699)</u>	<u>(6,584,754)</u>	<u>60,109,359</u>	<u>66,071,566</u>

The analysis of turnover by destination is not materially different from the analysis of turnover by origin.

2 OTHER OPERATING INCOME

	2005	2004
	US\$	US\$
Other	809,137	201,774
	<u>809,137</u>	<u>201,774</u>

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

3	OPERATING LOSS	2005 US\$	2004 US\$
	Operating loss is stated after charging/(crediting):		
	Auditors' remuneration		
	- UK	27,027	34,666
	- Overseas	49,551	75,471
	Depreciation of tangible fixed assets		
	- owned assets	2,130,181	2,062,330
	- leased assets	1,014	450
	Amortisation of goodwill	1,591,334	1,396,792
	(Gain)/loss on disposal of fixed assets	(4,290)	125,608
	Rentals under operating leases		
	- land and buildings	83,254	343,555
	- barges and containers	275,541	695,842
	- motor vehicles	28,846	2,157
	Directors' remuneration	54,009	107,848
	Staff costs (including directors' remuneration) - note 4	1,078,886	1,641,410
	Exchange gains	-	(85,480)
	Exceptional items		
	Provision against debtor	4,858,465	-
	Write off of amount due from a former employee of subsidiary	-	1,208,250
	Loss on cancellation of projects	-	2,416,480
	Write off of deposit for the acquisition of vessels	-	1,080,145
	Write off of deposit for mining equipment	-	2,374,211
	Write off of debtor relating to disposal of land use rights	-	2,476,913
		<hr/>	<hr/>
4	EMPLOYEES	2005 No.	2004 No.
	The average monthly number of persons (including directors) employed by the Group during the year was:		
	Management and administration	32	101
	Sales and distribution	-	5
	Operations	518	424
		<hr/>	<hr/>
		550	530
		<hr/>	<hr/>
		2005 US\$	2004 US\$
	Staff costs for above persons:		
	Wages and salaries		
	- included in costs of sales	581,471	644,424
	- included in operating expenses	474,582	965,446
	Other pension costs	16,978	24,685
	Other staff welfare	5,855	6,855
		<hr/>	<hr/>
		1,078,886	1,641,410
		<hr/>	<hr/>

DIRECTORS' REMUNERATION

Fees of US\$55,598 (2004: US\$nil) were paid to certain directors through Winbest Resources Limited, a company which is ultimately controlled by Chin Dynasty Foundation Limited (see note 27). These fees are in addition to fees of US\$54,009 (2004: US\$107,848) that were paid to the directors by Group companies, as disclosed in note 3.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

5	INTEREST RECEIVABLE	2005 US\$	2004 US\$
	Bank interest receivable	-	3,220
	Other interest receivable	-	403,374
		<u>-</u>	<u>406,594</u>
6	INTEREST PAYABLE	2005 US\$	2004 US\$
	Bank loans	113,093	125,698
	Other loans	127,276	891,465
	Finance charges payable under finance lease	82	342
		<u>240,451</u>	<u>1,017,505</u>
7	TAXATION	2005 US\$	2004 US\$
	Foreign tax		
	Current year	183,757	378,151
	Tax on profit on ordinary activities	<u>183,757</u>	<u>378,151</u>
	Factors affecting tax charge for the year:	2005 US\$	2004 US\$
	The tax assessed differs from the standard rate of corporation tax in the UK (30%). The differences are explained below:		
	Loss on ordinary activities before tax	(5,566,150)	(7,195,665)
	Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	<u>(1,669,845)</u>	<u>(2,158,700)</u>
	Effects of:		
	Addition to tax losses	55,075	16,864
	Expenses not deductible for tax purposes	2,397,109	2,732,717
	Different tax rates on overseas earnings	(184,295)	184,362
	Non-taxable income	(414,287)	(397,092)
	Tax charge for the year	<u>183,757</u>	<u>378,151</u>

In respect of subsidiary companies operating in Hong Kong, provisions for Hong Kong profits tax are calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year.

Subsidiary companies operating in the People's Republic of China are subject to Enterprise Income Tax ('EIT') at rates ranging from 15% to 33%. However, certain subsidiaries are subject to tax holidays from the local tax authorities under income tax law. Others had tax losses brought forward from previous years. Accordingly, no provision for EIT has been made for the year.

No deferred tax is recognised on the unremitted earnings of the overseas subsidiary companies, as no dividend payments due to UK parent company are expected to be made in the foreseeable future. A deferred tax asset of US\$71,939 (2004: US\$16,864) has not been recognised in respect of tax losses

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

carried forward due to the uncertainty of the timing of future taxable profits against which these losses can be offset.

8 LOSS PER SHARE

Basic loss per share for the year is based on a loss of US\$5,907,500 (2004: US\$7,168,582) and the weighted average number of shares in issue of 1,978,895,097 (2004: 1,978,017,406).

Dilutive loss per share for 2005 and 2004 is equivalent to basic loss per share as the effect of dilutive potential ordinary shares would decrease the net loss per share and so the potential ordinary shares are not treated as dilutive in accordance with FRS22 *Earnings per share*.

9 INTANGIBLE FIXED ASSET - GROUP

Goodwill on
acquisition of
subsidiaries
US\$

Cost	
At 1 January 2005 and 31 December 2005	27,890,148
Amortisation	
At 1 January 2005	3,689,095
Exchange difference	(197,332)
Charge for the year	1,591,334
At 31 December 2005	5,083,097
Net book value	
At 31 December 2005	22,807,051
At 31 December 2004	24,201,053

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

10	TANGIBLE FIXED ASSETS	GROUP Cost	Land and buildings US\$	Plant and machinery US\$	Furniture, fixtures and equipment US\$	Oil storage tanks US\$	Vessels US\$	Motor vehicles US\$	Construction in progress US\$	Total US\$
	At 1 January 2005		21,752,518	20,922,215	8,050,561	173,053	3,105,591	677,715	1,755,414	56,437,067
	Exchange differences		32,989	41,949	(1,436)	-	-	2,719	74,258	150,479
	Transfers		-	65,769	-	-	-	-	(65,769)	-
	Additions		279,602	9,421	73,697	-	-	27,016	-	389,736
	Disposals		-	-	(175,445)	-	(659,272)	(20,509)	-	(855,226)
	At 31 December 2005		22,065,109	21,039,354	7,947,377	173,053	2,446,319	686,941	1,763,903	56,122,056
	Depreciation									
	At 1 January 2005		6,153,407	8,554,555	4,110,806	13,460	1,035,722	471,285	-	20,339,235
	Exchange differences		28,713	40,970	(770)	-	-	(2,314)	-	66,599
	Charge for the year		402,006	875,282	543,810	-	257,133	52,731	-	2,131,195
	Disposals		-	-	(72,801)	-	(213,867)	(7,050)	-	(293,718)
	At 31 December 2005		6,584,126	9,470,807	4,581,045	13,460	1,078,988	514,652	-	22,243,311
	At 31 December 2005		15,480,983	11,658,547	3,366,332	159,593	1,367,331	172,289	1,763,903	33,878,745
	At 31 December 2004		15,599,111	12,367,660	3,939,755	159,593	2,069,869	206,430	1,755,414	36,097,832

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

10 TANGIBLE FIXED ASSETS (continued)

At 31 December 2005, the net book values of land and buildings, plant and machinery, fixtures and equipment are further analysed as follows:

	Terminal US\$	Power plant US\$	Mining zone US\$	Others US\$	Total US\$
Land					
- short leases	2,756,615	-	-	-	2,756,615
- unspecified leases	1,378,309	-	-	-	1,378,309
	<u>4,134,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,134,924</u>
Buildings	8,586,987	1,874,644	884,428	-	11,346,059
	<u>8,586,987</u>	<u>1,874,644</u>	<u>884,428</u>	<u>-</u>	<u>11,346,059</u>
Land and buildings	12,721,911	1,874,644	884,428	-	15,480,983
	<u>12,721,911</u>	<u>1,874,644</u>	<u>884,428</u>	<u>-</u>	<u>15,480,983</u>
Plant and machinery	4,656,414	6,912,133	-	-	11,568,547
	<u>4,656,414</u>	<u>6,912,133</u>	<u>-</u>	<u>-</u>	<u>11,568,547</u>
Furniture, fixtures and equipment	110,172	2,204,723	10,544	1,040,893	3,366,332
	<u>110,172</u>	<u>2,204,723</u>	<u>10,544</u>	<u>1,040,893</u>	<u>3,366,332</u>

At 31 December 2003, a guarantee was given by the Company's subsidiary, Keen Chance Terminal (GZ) Company Limited ("KCT") for banking facilities granted to a fellow investor, Miaotou Economic Development Company Limited ("MEDCL"), in KCT (see note 26(b)).

The Group obtained land use right and real estates certificates on the terminal's land under short leases from the local land authority. Land with a value of US\$ 1,378,309 held under unspecified leases of the terminal is land held for industrial use for which the relevant land use right certificate was not obtained and thus the term of the lease has yet to be agreed.

Included in the land and buildings of the power plant are short leases land on which the power plant, related ash storage pools and ancillary facilities are located. In addition, they also include land held for industrial use in respect of which the Group has not obtained the relevant land use right certificate.

Under the law of the People's Republic of China, the land held for industrial use and the buildings without building ownership certificates can only be used for identified industrial purposes. The Group did not obtain any building ownership certificates in respect of the buildings of the Group. The Group cannot legally sell or mortgage such properties until the relevant land taxes have been paid to the local land authority. However there is no binding agreement for the taxes to be paid.

At 31 December 2005, the net book value of fixed assets held under finance leases amounted to US\$Nil (2004:US\$3,368).

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

11 INVESTMENTS

COMPANY	Investment in subsidiaries
Cost	US\$
At 1 January 2005 and 31 December 2005	56,014,662

At 31 December 2005, the Company held 100% of the ordinary shares of Arko Offshore Holdings Limited, a company incorporated in the British Virgin Island ("BVI"), whose principal activity was that of a holding company. Arko Offshore Holdings Limited had the following subsidiaries undertakings:

Name	Holding ordinary shares/registered capital	Business activities	Country of incorporation
Arko Energy Limited	100%	Investment holding	British Virgin Islands
Arko Consultants Limited	100%	Providing management services	British Virgin Islands
Arko Pacific Limited	100%	Investment holding	British Virgin Islands
Long Prosperity Industrial Limited*	100%	Investment holding	Republic of Seychelles
Arko Silicon (Hubei) Limited*	100%	Dormant	People's Republic of China
Sanko Mineral Limited*	100%	Sub-letting of yachts, ships and vessels	British Virgin Islands
Arko Logistics Limited*	100%	Providing logistics and related services	Hong Kong
Arko Satellite Limited*	100%	Dormant	British Virgin Islands
Arko Terminal Limited ("ATL")*	100%	Investment holding	Republic of Seychelles
Changzhou Power Development Company Limited*	59.2%	Operating a coal-fired thermal power plant	People's Republic of China
Keen Chance Terminal (GZ) Company Limited*	40%	Investing in and operation of a terminal and providing logistics services	People's Republic of China
Fujian Sanko Mining Limited*	70%	Dormant	People's Republic of China

* held by a subsidiary of Arko Offshore Holdings Limited

The 40% equity interest in Keen Chance Terminal (GZ) Company Limited "KCT" previously held by Keen Lloyd Energy Limited ("KLEL"), a subsidiary of Keen Lloyd Holdings Limited ("KLHL"), has been transferred to ATL. The transfer has been submitted for registration to the relevant PRC authorities.

Pursuant to an agreement dated 5 April 2002 entered into between KLEL and Miaotou Economic Development Company Limited "MEDCL", a shareholder of KCT who held a 30% equity interest in KCT, MEDCL agreed to vote in accordance with the instructions of KLEL at board meetings in view of its indebtedness to KLEL, for an approximate sum of RMB78 million (equivalent to US\$9.4 million), and KLEL intended to convert the outstanding loan into the registered capital of KCT.

On 22 April 2003, KLEL entered into a shareholder agreement with MEDCL and Harbour Economic Development Company Limited ("HEDCL"), another shareholder of KCT, whereby all parties agreed that MEDCL has unconditionally transferred the authority empowered to its directors representative (including their rights and obligations) to KLEL until KLEL transferred the 40% equity interests in KCL to ATL to reiterate the aforesaid agreement dated 5 April 2002.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

11 INVESTMENTS (continued)

On 16 May 2003, a supplemental agreement was entered into between ATL, KLEL, MEDCL and HEDCL by which all parties agreed that the above authority transferred to KLEL would be vested in ATL after KLEL completed the transfer of equity interests in KCT to ATL.

In accordance with the terms and conditions set out in the above agreements, KLEL effectively controls the board of KCT and this arrangement has been confirmed by the shareholders of KCT. In 2002, a Hong Kong lawyer expressed his view that KCT is a subsidiary of KLEL under Hong Kong Company Law. Control of KLEL has been transferred to ATL and therefore in the opinion of the directors, KCT is a subsidiary of ATL under UK Companies Act 1985.

In addition, KCT will be a legal subsidiary of ATL immediately upon the registration of the transfer of the 40% of equity in KCT from KLEL to ATL.

12	INVESTMENT IN ASSOCIATE	2005 US\$	2004 US\$
	Share of net assets	12,082	12,082

The investment in associate represents 20% of the ordinary shares in a company incorporated in the People's Republic of China, Guangzhou Keen Lloyd Shipping Agents Limited, at consideration of RMB 100,000 (US\$12,082). The associate is principally engaged in provision of logistics and related services.

13 STOCKS

Stocks represent coal and consumables. There was no significant difference between the replacement cost and the value shown in the balance sheet.

14	DEBTORS	2005 US\$	Group 2004 US\$	2005 US\$	Company 2004 US\$
	Amounts falling due within one year:				
	Trade debtors	4,511,313	4,001,613	-	-
	Other debtors (note i)	4,298,499	8,710,217	26,111	-
		<u>8,809,812</u>	<u>12,711,830</u>	<u>26,111</u>	<u>444,218</u>
	Amounts falling due after more than one year:				
	Security deposit (note ii)	-	55,580	-	-
		<u>-</u>	<u>55,580</u>	<u>-</u>	<u>-</u>

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

14 DEBTORS (continued)

Notes:

- (i) Included in other debtors at 31 December 2005 are amounts due from (non-group) related companies as follows:

- Tanko Electronics Limited - US\$14,114 (2004: US\$6,318)
- Guangzhou Tung Lloyd Shipping Agency Company Limited - US\$170,172 (2004: US\$Nil)
- Guangzhou Winko Investment Ltd - US\$91,776 (2004: US\$Nil)
- Guangzhou Keen Lloyd Copper Industry Company Limited - US\$130,351 (2004: US\$Nil)

The amounts are interest free, unsecured and repayable on demand.

- (ii) From 2002, prepayments were made to local suppliers for stabilizing the sourcing of coal supply during the period from 5 March 2002 to 4 March 2004. During the year the remainder of the payment has been utilised by the Group.

15 CREDITORS

	2005	Group	2005	Company
	US\$	2004	US\$	2004
	US\$	US\$	US\$	US\$
(a) Amounts falling due within one year:				
Bank loans	-	9,449	-	-
Obligations under finance leases (note iii)	-	1,735	-	-
Trade creditors	739,070	1,673,686	-	-
Amount due to immediate holding company (note i)	-	1,000,000	-	-
Amount due to related companies (note ii)	-	84,880	-	-
Amount due to subsidiary	-	-	1,493,649	1,362,872
Corporation taxes	710,683	689,937	-	-
Other creditors and accruals	2,044,403	1,537,454	96,813	117,645
	<u>3,494,156</u>	<u>4,997,141</u>	<u>1,590,462</u>	<u>1,480,517</u>
(b) Amounts falling due after one year:				
Bank loan (note iv)	1,915,246	1,910,228	-	-
Advances from fellow investors in subsidiary companies (note v)	786,677	784,616	-	-
	<u>2,701,923</u>	<u>2,694,844</u>	<u>-</u>	<u>-</u>

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

15 CREDITORS (continued)

Notes

- (i) Amount is due to Keen Lloyd Holdings Limited and is interest-free and unsecured.
- (ii) Amounts is due to Arko Management Limited and Guangzhou Keen Lloyd Copper Industry Company Limited. The amounts due are unsecured and interest free.
- (iii) Obligations under finance leases are secured on the underlying assets and repayable between two to five years.
- (iv) The bank loan is unsecured. Interest accrues at the rate of 5.85% per annum.
- (v) An amount was advanced from Miaotou Economic Development Company Limited of US\$718,004 (2004: US\$716,123) and a further amount from Walton Enterprises Limited of US\$68,673 (2004: US\$68,493).

16 BANK LOANS, OTHER LOANS AND FINANCIAL INSTRUMENTS	2005 US\$	2004 US\$
Analysis of debt maturity		
Amounts payable		
In one year or less or on demand	-	9,449
Two to five years	2,701,923	2,694,844
	<u>2,701,923</u>	<u>2,704,293</u>
Obligations under finance leases		
Amounts payable:		
Within one year	-	1,735
	<u>-</u>	<u>1,735</u>
Bank, overdrafts, loans and finance leases analysis by origin:		
Hong Kong	-	11,184
People's Republic of China	2,701,923	2,694,844
	<u>2,701,923</u>	<u>2,706,028</u>

The Company had no other financial liabilities.

The Group holds financial instruments in order to finance its operations and to manage interest rate and currency risks. Group operations are financed by means of retained profits and a mixture of both short and medium term debts. The Group borrows, through banks and from related parties, in local currencies at fixed rates. The Group does not trade in any way in financial instruments.

The principal risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Group board reviews and agrees policies for managing each of these risks and these are summarised below. These policies have been developed during the current accounting period as a consequence of the Group's expansion.

Financial instruments such as investments in and advances to subsidiary undertakings and short term debtors and creditors have been excluded from the disclosures below.

Details of security are given in note 15.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

16 BANK LOANS, OTHER LOANS AND FINANCIAL INSTRUMENTS (continued)

Interest rate risk

Group borrowings are held in local currencies. Current loans are at fixed rates. The Group's policy for future borrowings will be to take floating rates unless fixed rate finance is available at particularly attractive rates.

The interest rate risk profile of the Group's financial liabilities and assets are as follows:

Financial liabilities

Currency	Total US\$	Interest-free US\$	Fixed rate US\$	Fixed rate weighted average interest rate at %	Fixed rate weighted average period for which rate is fixed Years
2005					
RMB	2,701,923	786,677	1,915,246	5.85	1
	<u>2,701,923</u>	<u>786,677</u>	<u>1,915,246</u>		
2004					
Hong Kong dollars	11,184	-	11,184	11.96	2
RMB	2,694,844	784,616	1,910,228	5.85	1
	<u>2,706,028</u>	<u>784,616</u>	<u>1,921,412</u>		

Financial assets

Currency	Floating rate 2005 US\$	Floating rate 2004 US\$
Hong Kong dollars	396,712	375,114
RMB	256,350	46,089
	<u>653,062</u>	<u>421,203</u>

Financial assets represent cash at bank and in hand. There were no fixed rate financial assets.

The directors consider that the fair value of the Group's financial assets and liabilities was the same as their carrying value.

Liquidity risk

The Group's policy is to ensure that sufficient facilities would be available to satisfy its peak borrowing requirements. As at 31 December 2005, the Group was within its bank borrowing facilities. The Group had drawn down all committed borrowing facilities at the year end.

Foreign currency risk

All trading is undertaken in local currencies. Funding is also in local currencies other than inter-company investments and loans and it is not the Group's policy to cover these amounts as the date of repayment is uncertain.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

17 RECONCILIATION OF OPERATING LOSS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2005 US\$	2004 US\$
Operating loss	(5,325,699)	(6,584,754)
Depreciation of tangible fixed assets	2,131,195	2,062,780
Amortisation of goodwill	1,591,334	1,396,792
(Gain)/loss on disposal of tangible fixed assets	(4,290)	125,608
Decrease in stocks	119,285	9,965
Decrease in debtors	3,957,598	5,903,021
Decrease in creditors	(427,667)	(1,016,449)
Exchange adjustments	(493,512)	238,359
Net cash flow from operating activities	<u>1,548,244</u>	<u>2,135,322</u>

18 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2005 US\$	2004 US\$
Returns on investment and servicing of finance		
Interest received	-	406,594
Interest paid	(240,451)	(1,017,505)
Net cash outflow from returns on investment and servicing of finance	<u>(240,451)</u>	<u>(610,911)</u>
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets	(389,736)	(1,846,807)
Sale of tangible fixed assets	565,798	435,353
Net cash inflow/(outflow) from capital expenditure	<u>176,062</u>	<u>(1,411,454)</u>
Acquisitions and disposals		
Purchase of associate	-	(12,082)
Sale of associate	-	1,092,836
Net cash outflow from acquisitions and disposals	<u>-</u>	<u>1,080,754</u>
Financing		
Issue of equity share capital	-	398,067
Capital element of finance lease rental payments	(1,735)	(22,183)
Net (decrease)/increase in bank and other borrowings	(1,089,311)	11,576
Increase/(decrease) in advances from investors	2,061	(417,599)
Net cash inflow from financing	<u>(1,088,985)</u>	<u>(30,139)</u>

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

19 ANALYSIS OF CHANGES IN NET DEBT

	At 1 January 2005 US\$	Cash flows US\$	At 31 December 2005 US\$
Cash in hand and at bank	421,203	231,859	653,062
Obligations under finance leases	(1,735)	1,735	-
Advances from investors	(784,616)	(2,061)	(786,677)
Other loans	(3,004,557)	1,089,311	(1,915,246)
Total	<u>(3,369,705)</u>	<u>1,320,844</u>	<u>(2,048,861)</u>

20 SHARE CAPITAL	2005		2004	
	Number	£	Number	£
Authorised:				
Ordinary shares of 0.5p each	30,000,000,000	150,000,000	30,000,000,000	150,000,000
Equivalent to:		US\$		US\$
		265,395,280		265,395,280
Allotted, called up and fully paid:		US\$		US\$
Ordinary shares of 0.5p each	1,978,895,097	14,921,520	1,978,895,097	14,921,520

Share options

The Company operates a share option scheme. During the year ended 31 December 2002, the Company granted share options to its advisors as part of the remuneration for the services provided. Details of share options transactions during the year ended 31 December 2005 are set out below:

Date granted	Exercisable From	To	Exercise price	Number of shares At 1 January 2005	Number of shares granted/lapsed	Number of shares At 31 December 2005
10.5.2002	27.6.2002	10.5.2007	2p	300,000	-	300,000

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

21 RESERVES

	Share Premium account US\$	Merger reserve US\$	Statutory surplus Reserve (note i) US\$	Profit and loss account US\$
GROUP				
At 1 January 2005	15,662,031	26,042,970	1,681,573	(4,587,087)
Loss for the year	-	-	-	(5,907,500)
Exchange movements	-	-	-	(247,768)
Appropriations	-	-	-	-
At 31 December 2005	15,662,031	26,042,970	1,681,573	(10,742,355)
COMPANY				
At 1 January 2005	15,662,031	26,042,970	-	(1,544,106)
Exchange movements	-	-	-	(286,862)
Loss for the year	-	-	-	(197,264)
At 31 December 2005	15,662,031	26,042,970	-	(2,028,232)

Note:

(i) Statutory surplus reserve:

In accordance with the law of the People's Republic of China and the Articles of Association of certain of the Company's subsidiaries, directors of these subsidiaries may at their discretion make appropriations to a statutory surplus reserve equivalent to 10% of the subsidiaries' net profits. Appropriations may also be made to statutory public welfare reserve equivalent to 5 to 10% of the net profits of these operating subsidiaries. Distribution of profits to shareholders can only be made after such appropriations.

The statutory surplus reserve may be used to reduce any losses incurred or be capitalised as paid up capital. The use of the statutory public welfare reserve is restricted to capital expenditure incurred for staff welfare facilities. The statutory public welfare reserve is not available for distribution.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

22	RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS	2005 US\$	2004 US\$
	Loss for the financial year	(5,907,500)	(7,168,582)
	Other recognised gains and losses	(247,768)	115,280
	New share capital subscribed	-	398,067
	Net reduction in shareholders' funds	(6,155,268)	(6,655,235)
	Opening shareholders' funds	53,721,007	60,376,242
	Closing shareholders' funds	47,565,739	53,721,007

23 RELATED PARTY TRANSACTIONS

Other than transactions otherwise disclosed in the financial statements, the Group had the following material transactions which were carried out on an arm's length basis with related parties during the year:

Name of company	Note	Nature	Year ended 31 December 2005 US\$	Year ended 31 December 2004 US\$
Guangzhou Tung Lloyd Shipping Company Limited	(a)	Barge hire charges	-	300,914
Guangzhou Tung Lloyd Shipping Agency Limited	(a)	Agency charges	-	133,606
Winko Metal Limited	(c)	Agency charges	72,587	73,367
Winko Resources Limited	(c)	Hiring charges for Motor	23,144	49,215
Keen Lloyd Holdings Limited	(c)	Vehicle	-	63,981
Young Crystal Limited	(b)	Management fee received	-	27,101
Tanko Electronics Limited	(c)	Hiring charges for Motor	-	7,931
Arko Harbour Limited	(d)	Vehicle	17,414	51,158
Arko Investment Limited	(d)	Management fee received	-	106,348,646
Arko Management Limited	(d)	Acquisition of companies	-	20,029,841
Keen Lloyd Copper Ind (Guangdong) Limited	(d)	Disposal of subsidiary	-	73,040
Guangdong Winko Investment Limited	(c)	Acquisition of fixed assets	-	12,499,441
	(c)	Sales	-	12,079,983
	(a)	Purchases	-	26,526

The Company has taken advantage of the exemption conferred in FRS8 *Related parties* from disclosing transactions with Group companies.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

23 RELATED PARTY TRANSACTIONS (continued)

Notes:

- (a) A company in which the Chairman, Mr Qin Shun Chao, is a director.
- (b) A company in which Ms Angela Leung Suk Ching is a director.
- (c) A company controlled by Keen Lloyd Holdings Limited (see note 27).
- (d) Subsidiary company disposed during the year ended 31 December 2004.

24 OPERATING LEASE COMMITMENTS

At 31 December 2005, the Group was committed to make the following payments during the next year in respect of land and building under operating leases:

	2005 US\$	2004 US\$
Leases which expire:		
in the next year	58,896	207,826
in the second to fifth years	-	55,369
	<u>58,896</u>	<u>263,195</u>

25 CAPITAL COMMITMENTS

At 31 December 2005, the Group had capital commitments contracted for as follows:

- in respect of the acquisition of a gantry from an non-related supplier in the sum of RMB 4,700,000 intended for use by a subsidiary company, Keen Chance Terminal (GZ) Company Limited.
- in respect of the acquisition of eight vessels amounting to US\$Nil (2004: US\$49,320,000).
- in respect of the acquisition of plant, machinery and equipment amounting to US\$Nil, primarily mining equipment intended for use by a subsidiary, Fujian Sanko Mining Limited (2004: US\$40,399,000)

The Company had no capital commitments.

26 CONTINGENT LIABILITIES

- (a) On 23 July 1998, a subsidiary of the Company, Keen Chance Terminal (GZ) Company Limited ("KCT"), gave a guarantee for RMB50 million (equivalent to approximately US\$5.9 million) in favour of the Huangpu Branch of the Industry and Commercial Bank of China for banking facilities granted to Harbour Economic Development Company Limited ("HEDCL"), a fellow investor in KCT and its ultimate controlling party, Guangzhou Huangpu Foreign Trade Group Company Limited and secured over their equity interests in KCT. HEDCL was unable to repay the loans due to the bank. The bank took action against KCT to enforce the guarantee for the outstanding loan.
- (b) On 9 November 1999, KCT gave a guarantee for RMB18 million (equivalent to approximately US\$2.1 million) in favour of Nangang Rural Credit Co-operation Bank for banking facilities granted to Miaotou Economic Development Company Limited ("MEDCL"), a fellow investor in KCT, secured over its equity interests in KCT. MEDCL was unable to repay the outstanding loan.

Arko Holdings Plc

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2005

26 CONTINGENT LIABILITIES (continued)

On 27 September 2001, the Guangzhou Law Court delivered an order and notice that the guarantees above were invalid and MEDCL's equity interest in KCT was frozen.

Based on legal advice, the equity interests had no material impact on the operations of KCT and the directors consider that no provision is required.

KCT maintains that the guarantee given was invalid on the following grounds:

- (1) such guarantee did not have approval from the board of directors of KCT;
- (2) in accordance with the law of the People's Republic of China, the board of directors and the management of KCT cannot give KCT's properties for guarantee to its shareholder; and
- (3) the controlling party of HEDCL has not held a valid business licence since 1998 and ceased operations in 1999. In accordance with the banking regulations of the People's Republic of China, the bank cannot lend money to enterprises which do not have a valid business licence.

The legal proceedings are still in progress. Based on legal advice, the directors are of the opinion that, the loan agreement was void because it was illegal and accordingly, the guarantee contract was also invalid.

Furthermore, Keen Lloyd Holdings Limited, the Company's parent company, has indemnified the Group against any loss KCT will suffer should the guarantee be enforceable.

Accordingly, the directors are of the opinion that no provision should be made in the financial statements for any possible claim from the bank in respect of the litigation.

27 ULTIMATE CONTROLLING PARTY

The directors consider that Chin Dynasty Foundation Limited ("CDDL"), a company incorporated in the British Virgin Islands is the ultimate holding company. CDDL is controlled by the Chin Dynasty Fund.

The Chin Dynasty Fund is a discretionary trust where Mr Qin Shun Chao is the settlor. Members of Mr Qin's family are the potential beneficiaries of the trust.

No group financial statements for CDDL are published.

The company's immediate parent company is Keen Lloyd Holdings Limited, a company incorporated in the British Virgin Islands.

28 EXCHANGE RATE

The US dollar to sterling exchange rate at 31 December 2005 was US\$1.7168/£ (2004: US\$1.199/£).