

Notes to the Financial Statements

For the year ended 31st December, 2004

1. GENERAL INFORMATION

Compass Pacific Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company is an investment holding company and its subsidiaries (together with the Company referred to as the “Group”) are mainly engaged in the operation of indoor game centres, manufacture and sale of automobile axles in the People’s Republic of China (the “PRC”) and investment holding. The directors consider Sun East LLC, a company incorporated in the United States of America (the “USA”), to be the ultimate holding company.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 21 to 53 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The results of the 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.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

(c) Joint ventures

The Group’s joint ventures in the PRC are in the form of Sino-foreign co-operative or Sino-foreign equity joint ventures. For Sino-foreign co-operative joint ventures, the partners’ profit-sharing ratios and share of net assets upon the expiration of the joint venture terms may not be in proportion to their equity ratios but are as defined in the respective joint venture contracts. For Sino-foreign equity joint ventures, the partners’ profit-sharing ratios and share of net assets upon the expiration of the joint venture years are in proportion to their equity contribution ratios.

The Group’s joint ventures are accounted for as subsidiaries as the Company has the power to govern the financial and operating policies of the joint ventures so as to benefit from their activities.

Notes to the Financial Statements

For the year ended 31st December, 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(d) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company's balance sheet subsidiaries are carried at cost less impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(e) Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

All goodwill of the Group arisen from transactions completed prior to 1st January, 2002 was eliminated directly against reserves and reduced by impairment losses.

(f) Property, plant and equipment

(i) Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights and buildings	Over the terms of the leases or 50 years whichever is shorter
Leasehold improvements, fixture and fittings, and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10%
Motor vehicles	20% to 25%

(ii) Measurement bases

Property, plant and equipment other than investment properties are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

Notes to the Financial Statements

For the year ended 31st December, 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment property is stated at open market value determined annually by independent valuers.

Increases in the carrying amount of investment property are credited to the investment property revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating results. A revaluation increase is recognised as income to the extent that it reverses revaluation decrease previously recognised as an expense.

No depreciation is provided for investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

Upon disposal, the revaluation surpluses relating to the investment property disposed of are released from the investment property reserve and charged to the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the first-in-first-out basis and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present locations and conditions. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(i) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any other banks or financial institutions. Cash includes deposits denominated in foreign currencies.

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

(j) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Games, rides and other amusement facilities

Revenues from games, rides and other amusement facilities are recognised upon the sales of tokens to customers.

(ii) Sale of automobile axles

Revenue from the sale of automobile axles is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(iii) Interest income

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rates applicable.

(l) Research and development expenditures

Research and development expenditures are charged to the income statement in the year incurred except for development costs which satisfy the following criteria:

- (i) the product or process is clearly defined and the costs are separately identified and measured reliably;
- (ii) the technical feasibility of the product or process is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- (v) adequate technical, financial and other resources required for completion of the product or process are available.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the capitalised development costs.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

Notes to the Financial Statements

For the year ended 31st December, 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Income tax

Income tax for the year comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

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 profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to 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.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(n) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(ii) Foreign subsidiaries

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(p) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Non-accumulating compensated absences are not recognised until the time of leave.

(ii) Pension obligations

The Group's pension obligations are of defined contribution in nature. Contributions are charged as expense in the income statement as incurred.

Notes to the Financial Statements

For the year ended 31st December, 2004

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(q) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(r) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(s) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(t) **Investments**

Investments in equity securities are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such equity securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Provisions against the carrying value of equity securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(u) **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(v) **Recently issued accounting standards**

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SEGMENT INFORMATION

(a) Primary reporting format – business segments

	Operation of indoor game centres		Manufacture and sale of automobile axles		Investment holding and others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	1,659	4,680	5,099	12,585	–	–	6,758	17,265
Results								
Segment results	(1,405)	(6,088)	(8,176)	(1,370)	(34,776)	(44,645)	(44,357)	(52,103)
Taxation							–	–
Minority interests							3,442	703
							(40,915)	(51,400)
Assets and liabilities								
Segment assets	951	2,378	15,150	23,841	116,923	151,284	133,024	177,503
Segment liabilities	3,694	3,816	339	853	10,475	9,961	14,508	14,630
Other information								
Capital expenditure	45	518	–	3,669	2,861	3,237	2,906	7,424
Depreciation	590	1,450	1,021	1,147	2,486	2,179	4,097	4,776
Impairment	368	1,236	1,138	–	–	–	1,506	1,236
Loss on write off of property, plant and equipment	–	–	5,644	–	–	–	5,644	–
Provision for doubtful debts	–	662	–	–	354	3,000	354	3,662
Surplus on revaluation of investment property	–	–	–	–	–	(70)	–	(70)

Notes to the Financial Statements

For the year ended 31st December, 2004

3. SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format – geographical segments

The Group's activities are conducted in Hong Kong, the PRC and the USA. An analysis by geographical segment is as follows:

	Hong Kong		The PRC (excluding Hong Kong)		The USA		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	-	-	6,758	17,265	-	-	6,758	17,265
Segment assets	18,050	30,239	16,101	26,219	98,873	121,045	133,024	177,503
Capital expenditure	2,796	14	45	4,187	65	3,223	2,906	7,424

4. TURNOVER AND REVENUE

	2004 HK\$'000	2003 HK\$'000
Turnover:		
– Revenues from games, rides and other amusement facilities	1,659	4,680
– Sales of automobile axles	5,099	12,585
	6,758	17,265
Other revenue:		
– Bank interest income	568	818
– Other interest income	983	354
– Surplus on revaluation of investment property	-	70
– Miscellaneous	732	19
	2,283	1,261
Total turnover and revenue	9,041	18,526

Notes to the Financial Statements

For the year ended 31st December, 2004

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2004 HK\$'000	2003 HK\$'000
Staff costs (including directors' emoluments)	22,701	25,870
Auditors' remuneration	340	420
Depreciation of property, plant and equipment	4,097	4,776
Impairment of property, plant and equipment	1,506	1,236
Provision for doubtful debts	354	3,662
Loss on write off of property, plant and equipment	5,644	–
Loss on disposal of property, plant and equipment	–	43
Cost of inventories recognised as expenses	5,121	12,878
Research and development costs	–	3,479
Operating lease rentals in respect of rented premises	2,149	3,256
Pension scheme contributions:		
– Hong Kong	102	95
– PRC	184	423
and crediting:		
Gain on disposal of property, plant and equipment	15	–

6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

Remunerations of the directors disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 HK\$'000	2003 HK\$'000
Independent non-executive directors		
Fees	176	156
Executive directors		
Fees	488	567
Salaries, allowances and benefits in kind	11,157	10,417
Pension scheme contributions	24	24
	11,669	11,008
Total	11,845	11,164

The emoluments of the directors represent the amounts paid to or receivable by the directors in the respective financial year and exclude the benefits derived from or to be derived from the share options granted under the 2003 Scheme as detailed in note 23.

As at 31 December 2004, directors' fees payable to independent non-executive directors amounted to HK\$374,000 (2003: HK\$276,000) are included in accruals and other payables.

Notes to the Financial Statements

For the year ended 31st December, 2004

6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS *(Continued)*

(a) Directors' emoluments *(Continued)*

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands:		
Up to HK\$1,000,000	5	12
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	1
	9	15

No director waived the right to receive emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2003: one) individual during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	935	781
Pension scheme contributions	–	–
	935	781

Benefits in kind represent the estimated monetary value of accommodation and other benefits provided to the directors and employees of the Group.

The emoluments of the remaining one (2003: one) individual fell within the following band:

Emolument band	Number	
	2004	2003
Up to HK\$1,000,000	1	1

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

Notes to the Financial Statements

For the year ended 31st December, 2004

7. TAXATION

No provision for Hong Kong profits tax or other income tax has been made in the financial statements as the companies within the Group had no assessable profits for the year in the respective jurisdictions in which the entities operate.

Reconciliation between tax expense and accounting loss at applicable tax rates:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	(44,357)	(52,103)
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdiction concerned	(11,610)	(12,727)
Tax effect of non-deductible expenses	3,167	4,924
Tax effect of non-taxable revenues	(8)	(33)
Tax losses not recognised as deferred tax asset	8,256	7,769
Tax effect of prior year's tax losses utilised this year	(13)	–
Other temporary differences not recognised	208	67
Actual tax expense	–	–

The Group has not recognised deferred tax assets in respect of unused tax losses because of the unpredictably of future profit streams. Deferred tax on other temporary differences has not been recognised because the amount involved was not material.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$17,946,000 (2003: HK\$49,023,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31st December, 2004 (2003: Nil) and the Company did not pay any interim dividend during the year.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$40,915,000 (2003: HK\$51,400,000) and on the weighted average of 1,895,451,000 (2003: 1,310,371,148) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31st December, 2004 was not presented because the impact of the exercise of the share options was anti-dilutive.

Notes to the Financial Statements

For the year ended 31st December, 2004

11. PROPERTY, PLANT AND EQUIPMENT

The movements of property, plant and equipment of the Group are as follows:

	Investment property HK\$'000	Leasehold Land use rights and improvements, buildings HK\$'000	Leasehold fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Game equipment HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At 1st January, 2004	1,620	7,567	16,430	3,621	58,337	8,923	11,044	107,542
Additions	-	-	96	72	-	-	2,738	2,906
Disposals	(1,620)	-	-	-	-	-	(783)	(2,403)
Write off	-	(7,567)	-	-	-	-	-	(7,567)
At 31st December, 2004	-	-	16,526	3,693	58,337	8,923	12,999	100,478
Accumulated depreciation and impairment losses:								
At 1st January, 2004	-	1,734	15,015	1,810	57,692	2,648	3,920	82,819
Depreciation charge for the year	-	189	553	328	328	777	1,922	4,097
Disposals	-	-	-	-	-	-	(270)	(270)
Write off	-	(1,923)	-	-	-	-	-	(1,923)
Impairment	-	-	-	5	161	1,138	202	1,506
At 31st December, 2004	-	-	15,568	2,143	58,181	4,563	5,774	86,229
Net book value:								
At 31st December, 2004	-	-	958	1,550	156	4,360	7,225	14,249
At 31st December, 2003	1,620	5,833	1,415	1,811	645	6,275	7,124	24,723
The analysis of cost or valuation of the above assets as at 31st December, 2004 is as follows:								
At cost	-	-	16,526	3,693	58,337	8,923	12,999	100,478
The analysis of cost or valuation of the above assets as at 31st December, 2003 is as follows:								
At cost	-	7,567	16,430	3,621	58,337	8,923	11,044	105,922
At professional valuation	1,620	-	-	-	-	-	-	1,620
	1,620	7,567	16,430	3,621	58,337	8,923	11,044	107,542

The land use rights were related to land located in the PRC for the operation of the manufacture and sale of automobile axles where no individual land ownership rights existed. The amount has been fully written off as the land was reclaimed by the PRC local government for redevelopment use. The impairment for the year mainly included certain plant and machineries impaired as a result of the relocation of the operation to a new site.

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For the year ended 31st December, 2004

11. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The investment property was located in Hong Kong under a long-term lease. Its carrying value as at 31st December, 2003 was appraised by Chesterton Petty Limited, independent professional valuers, on 21st April, 2004. The investment property was disposed of during the year.

12. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	227,220	227,220
Less: Provision for impairment losses	(94,802)	(94,802)
	132,418	132,418
Amounts due from subsidiaries	147,811	158,619
Less: Provision for doubtful debts	(141,531)	(141,531)
	6,280	17,088
	138,698	149,506
	2004 HK\$'000	2003 HK\$'000
Amount due to subsidiaries	822	3,538

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. The directors consider the amounts due from subsidiaries are not repayable within one year.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying amount of the interests in subsidiaries as at 31st December, 2004.

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12. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the Company's subsidiaries as at 31st December, 2004 are as follows:

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
American Compass Inc.	The USA	Ordinary US\$ 17,000,000	100	–	Investment holding
Bluebell Fields Limited	The British Virgin Islands	Ordinary US\$ 1	100	–	Inactive
Bright Skies Limited	The British Virgin Islands	Ordinary US\$ 1	100	–	Investment holding
Compass Pacific Capital Limited (圓通金融有限公司)	Hong Kong	Ordinary HK\$ 2	100	–	Investment holding
Dawes Investments Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Hemsby Investments Limited	The British Virgin Islands	Ordinary US\$ 200	100	–	Investment holding
Kristal Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Liberty Capital Limited (立寶金融有限公司)	Hong Kong	Ordinary HK\$ 1	–	100	Inactive
Liberty Investment Holdings Limited (立寶投資控股有限公司)	Hong Kong	Ordinary HK\$ 10,000	–	100	Inactive
Nara Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Upward Trend Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Whimsy International Trading Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Yaohan Whimsy International Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Asian Rose Holdings Limited	Hong Kong	Ordinary HK\$ 2	–	100	Property holding and leasing

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12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Global Gold Trading Limited	Hong Kong	Ordinary HK\$ 2	–	100	Inactive
Parkwell (Hong Kong) Ltd. (百宏(香港)有限公司)	Hong Kong	Ordinary HK\$ 2	100	–	Leasing
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong	Ordinary HK\$ 2	–	100	Investment holding
Yaohan Whimsy Co., Limited	Hong Kong	Ordinary HK\$1,000 Ψ Non-voting deferred HK\$1,000	–	100	Investment holding
*成都歡樂天地有限公司 (Chengdu Happy World Co., Limited)	Chengdu, the PRC	RMB 10,000,000	–	97	Ceased operations
#河南歡樂天地兒童遊樂有限公司 (Henan Whimsy Amusement Company Limited)	Henan, the PRC	US\$ 2,000,000	–	100	Operation of indoor entertainment centre
*上海歡樂天地兒童遊樂有限公司 (Shanghai Whimsy Amusement Co., Limited)	Shanghai, the PRC	US\$ 3,000,000	–	90	Ceased operations
Δ沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.)	Shenyang, the PRC	RMB 30,000,000	–	51	Manufacture of automobile axles
*蘇州運時家庭電子娛樂有限公司 (Suzhou Whimsy Family Electronic Recreation Co., Limited)	Suzhou, the PRC	US\$ 1,050,000	–	95	Ceased operations
*無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited)	Wuxi, the PRC	US\$ 2,720,000	–	95	Ceased operations

Notes to the Financial Statements

For the year ended 31st December, 2004

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly	Indirectly	
			%	%	
Whimsy Japan Company Limited	Japan	Ordinary JPY 10,000,000	-	100	Inactive
Whimsy USA, Inc.	The USA	Ordinary US\$ 10	100	-	Inactive

* These subsidiaries are Sino-foreign co-operative joint ventures.

△ This subsidiary is a Sino-foreign equity joint venture.

This subsidiary is a wholly foreign owned enterprise.

Ψ The deferred shares, which are not held by the Group, practically carry no rights to dividends, to receive notice of, to attend or vote at any general meeting of the respective companies, and to participate in any distribution on winding up.

13. LONG TERM INVESTMENT

	The Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments in American Phoenix Group, Inc. ("APG"), at cost	21,423	-

At 31st December, 2004, the particulars of APG are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
American Phoenix Group, Inc.	USA	Investment holding	Common stock US\$ 11,038,599	9.29%

Notes to the Financial Statements

For the year ended 31st December, 2004

13. LONG TERM INVESTMENTS *(Continued)*

On 20th September, 2004 the Group entered into a loan agreement with APG and made available to APG a term loan facility of HK\$43,624,000 (US\$5.6 million). The loan bears interest at 5% per annum and was originally scheduled to be fully repayable on 24th December, 2004. The loan is secured by a share mortgage of 25% equity interest of a subsidiary of APG.

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Loan receivable, secured	43,624	–
Interest receivables	603	–
	44,227	–

On 18th March, 2005, the Group entered into an agreement to acquired a further interest in APG. The consideration will be satisfied by setting off the above loan receivable from APG. For details please refer to the post balance sheet events disclosed in note 29.

14. OTHER LOAN RECEIVABLES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Other loan receivables – unsecured	2,629	1,558
Less: Current portion due within on year included in other receivables under current assets	(370)	(312)
Non-current portion under non-current assets	2,259	1,246

The above balance included an unsecured loan made to a member of the senior management of the Group. The loan bears interest at one year LIBOR (subject to adjustment annually in October) and will be repayable by ten instalments in five years.

15. INVENTORIES

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Plush toys – at cost	48	167
Spare parts and other consumables – at cost	145	–
	193	167
Less: provision	(122)	–
	71	167

As at 31st December, 2004, the above inventories include HK\$71,000 (2003: Nil) which are carried at net realisable value.

Notes to the Financial Statements

For the year ended 31st December, 2004

16. LAND FOR RESALE

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Freehold land for resale outside Hong Kong, at cost	1,636	–

17. TRADE RECEIVABLES

The balances resulted from the sales of automobile axles, which were on an average credit period of 90 days.

The aging analysis of the trade receivables of the Group as at 31st December, 2004 is as follows:

	2004	2003
	HK\$'000	HK\$'000
Over 90 days	–	127

18. OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	11,175	11,780	3,060	2,846
Less: Provision for doubtful debts	(6,428)	(6,074)	–	–
	4,747	5,706	3,060	2,846

19. CASH AND CASH EQUIVALENTS

As at 31st December, 2004, cash and cash equivalents of the Group denominated in Chinese Renminbi (“RMB”) amounted to approximately HK\$237,000 (2003: HK\$1,002,000). RMB is not freely convertible into other currencies. Subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Notes to the Financial Statements

For the year ended 31st December, 2004

20. TRADE PAYABLES

The aging analysis of the trade payables of the Group as at 31st December, 2004 is as follows:

	2004 HK\$'000	2003 HK\$'000
0 – 90 days	33	102
Over 90 days	668	522
	701	624

21. CONNECTED PARTY TRANSACTIONS

(a) Amount due from/(to) a connected party is unsecured, non-interest bearing and repayable on demand and mainly arose from transaction stated in note 21(b) below.

(b) During the year, the Group entered into the following transactions with the connected party:

	2004 HK\$'000	2003 HK\$'000
Sales to a connected party	5,100	12,585
Purchase from a connected party	5,019	12,367

The above transactions were carried out after negotiations between the Group and the connected party in the ordinary course of business and on normal commercial terms as determined by the directors.

The above connected party is the holding company of the minority joint venture partner of a subsidiary of the Company.

22. SHARE CAPITAL

	2004		2003	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
<i>Issued and fully paid:</i>				
At 1st January	1,895,451,000	189,545	1,263,634,000	126,363
Increase during year	–	–	631,817,000	63,182
At 31st December	1,895,451,000	189,545	1,895,451,000	189,545

22. SHARE CAPITAL *(Continued)*

Pursuant to an open offer of new shares to qualifying shareholders on 13th November, 2003, the Company issued 631,817,000 ordinary shares with a nominal value of HK\$0.10 each on 5th December, 2003, at HK\$0.106 per share for a total cash consideration, before expenses, of HK\$66,972,602. These shares rank pari passu in all respects with the then existing issued shares of the Company.

23. SHARE OPTIONS

On 12th June, 2003, the share option scheme adopted by the Company on 15th March, 1995 (the “1995 Scheme”) was terminated and a new share option scheme (the “2003 Scheme”) was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12th June, 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Share Option Scheme. The offer of a grant may be accepted upon payment of HK\$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company’s share as stated in the Stock Exchange’s daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company’s shares.

Notes to the Financial Statements

For the year ended 31st December, 2004

23. SHARE OPTIONS (Continued)

The particulars in relation to share option schemes of the Company are as follows:

Name	At 1st January, 2004	Number of share options Granted during the year	Cancelled during the year	At 31st December, 2004	Date of grant of share options	Exercise period of share options	Exercise price per share HK\$
Directors							
Mr. Yung Yeung	10,000,000	–	–	10,000,000	16th February, 2000	16th February, 2000 to 15th February, 2010	0.690
	21,570,000	–	–	21,570,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
Mr. Jun Li	5,400,000	–	–	5,400,000	2nd November, 2000	2 November 2000 to 1st November, 2010	0.382
	–	13,540,000	–	13,540,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Mr. Chunhua Huang	5,400,000	–	–	5,400,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
	–	13,540,000	–	13,540,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Mr. Yuwen Sun	–	18,940,000	–	18,940,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Ms. Chizuko Kubo	–	5,000,000	–	5,000,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	42,370,000	51,020,000	–	93,390,000			
Employees							
In aggregate	4,800,000	–	–	4,800,000	16th February, 2000	16th February, 2000 to 15th February, 2010	0.690
	9,400,000	–	–	9,400,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
	–	37,800,000	19,028,000	18,772,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	14,200,000	37,800,000	19,028,000	32,972,000			
Other eligible persons							
In aggregate	–	44,000,000	44,000,000	–	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	56,570,000	132,820,000	63,028,000	126,362,000			

Notes to the Financial Statements

For the year ended 31st December, 2004

24. RESERVES

The Group

	Share premium HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 31st December, 2004	262,529	(2,304)	(343,313)	(83,088)
At 31st December, 2003	262,529	(2,304)	(302,398)	(42,173)

The Company

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2003	260,592	94,601	(344,019)	11,174
Loss for the year	–	–	(49,023)	(49,023)
Issue of share capital	1,937	–	–	1,937
At 31st December, 2003 and 1st January, 2004	262,529	94,601	(393,042)	(35,912)
Loss for the year	–	–	(17,946)	(17,946)
At 31st December, 2004	262,529	94,601	(410,988)	(53,858)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31st December, 2004 (2003: Nil).

Notes to the Financial Statements

For the year ended 31st December, 2004

25. COMMITMENTS AND CONTINGENCY

(a) Research and development commitments

On 3rd January, 2001 (the "Effective Date"), the Company entered into an agreement with the Trustees of Columbia University in the City of New York ("Columbia"), pursuant to which Columbia was to conduct research in the field of antigen/antibody microarrays for use in immunological diagnostic and functional genomic applications. The Company would have exclusive rights of the results of the said research. In exchange, the Company was to provide financial support for the said research.

The Company had the right to exercise early termination in the first eighteen months after the Effective Date, upon six months written notice to Columbia.

In year 2003, the Company decided to terminate its contribution to the above research project in view of the absence of foreseeable future revenue to be generated to the Group and Columbia failed to provide the Group with a written report summarizing research activities. No provision has been made regarding contribution payable to Columbia for the year amounting to HK\$3,592,000.

Capital commitments in respect of the above agreement outstanding as at 31st December, 2004 not provided for in the financial statements of the Group and the Company are summarised as follows:

	The Group and the Company	
	2004	2003
	HK\$'000	HK\$'000
Contracted for	7,366	7,366

(b) Capital commitments

As at 31st December, 2004, the Group had the following commitments for capital expenditure in respect of manufacture and sale of automobile axles:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted for	26	1,702

The Company had no capital commitment as at 31st December, 2004 (2003: NIL).

Notes to the Financial Statements

For the year ended 31st December, 2004

25. COMMITMENTS AND CONTINGENCY *(Continued)*

(c) Lease commitments

As at 31st December, 2004, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	1,866	2,073
After one year but within five years	3,102	4,387
	<u>4,968</u>	<u>6,460</u>

The operating lease commitments in respect of certain rented premises are subject to an additional premium based on a fixed percentage of the annual gross turnover and receipts in excess of a specific minimum rental amount that there is no fixed commitment for these leases.

The Company had no lease commitment as at 31st December, 2004 (2003: NIL).

(d) Contingency

The Group provides for potential individual income taxes, related fines and penalties for its employees working in the PRC based on management's best estimate. The management believes that the possibility for additional fines and penalties that may be payable by the Group is remote.

26. RETIREMENT BENEFITS SCHEME

The employees employed by the subsidiaries located in the PRC are members of state-managed retirement benefits schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefits schemes in the respective provinces to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the required contributions under these schemes.

The Group's Hong Kong employees are covered by the mandatory provident fund, which is managed by an independent trustee. The Group and its Hong Kong employees each makes monthly contributions to the scheme at 5% of the employees' cash income with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month.

The retirement benefit scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31st December, 2004, the Group's contributions were approximately HK\$286,000 (2003: HK\$518,000). There was no (2003: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

Notes to the Financial Statements

For the year ended 31st December, 2004

27. BANKING FACILITIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Other banking facilities	500	500

As at 31st December, 2004, a subsidiary of the Company had aggregate banking facilities of HK\$500,000 (2003: HK\$500,000), all of them remained unutilised. The facilities are secured by bank deposits of HK\$700,000 (2003: HK\$700,000).

28. LEGAL PROCEEDINGS

On 1st December, 2003, the PRC joint venture partner of Shanghai Whimsy Amusement Co., Limited ("Shanghai JV"), a subsidiary of the Company, commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK\$454,000. A provision has been made in the financial statements in respect of such guaranteed profits to the PRC joint venture partner.

On 4th November, 2004, the PRC joint venture partner of Wuxi Whimsy Amusement Co., Limited ("Wuxi JV"), a subsidiary of the Company, commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK\$94,000, together with the cancellation of the JV agreement and the liquidation of Wuxi JV. The directors, after taking legal advice, are contesting this claim although at this stage the outcome of this claim cannot be determined with reasonable certainty. No provision has been made in the financial statements in respect of such claim accordingly.

29. POST BALANCE SHEET EVENTS

On 11th March, 2005, American Compass Inc. ("ACI"), a subsidiary of the Company, entered into an Acquisition Agreement (the "1st Acquisition") with American Phoenix Group, Inc. ("APG"), a company incorporated under the laws of the State of California, the United States of America with limited liability, whereby ACI has conditionally agreed to subscribe for the 35,569,384 new Class A common stocks of APG ("the Subscription Shares"). The Subscription Shares represent approximately 48.5% of the existing issued share capital of APG and approximately 32.66% of the enlarged share capital of APG upon completion of the 1st Acquisition. The consideration will be satisfied by setting off the loan of HK\$43,624,000 (US\$5.6 million) advanced by the Group to APG under the loan agreement dated 20th September, 2004.

On the same date, ACI entered into acquisition agreements with the legal and beneficial owners of the aggregate 55,872,144 Class A common stocks (the "Sale Shares") in capital of APG (the "Vendors") (the "2nd Acquisition") pursuant to which ACI has conditionally agreed to purchase the Sale Shares at HK\$137,198,069 (US\$17,589,496). The Sale Shares represent 76.18% of the existing issued share capital of APG and 51.3% of the issued capital of APG immediately after completion of the 1st Acquisition. The consideration payable under the 2nd Acquisition will be satisfied by the issue of new shares by the Company at an issue price being the higher of HK\$0.25 and the average of the closing prices per share as quoted on the Stock Exchange for five trading days prior to the special general meeting of the Company to be convened for the purpose of considering and if thought fit, approving among other things, the Acquisitions.

Notes to the Financial Statements

For the year ended 31st December, 2004

30. MAJOR NON-CASH TRANSACTION

During the year, a subsidiary of the Company purchased a motor vehicle with a capital value of HK\$2,738,000 and received a trade-in discount of HK\$125,000 by disposing of a motor vehicle to the vendor.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 21 to 53 were approved by the board of directors on 28th April, 2005.