# Notes to the Financial Statements

For the year ended 31 December 2005

## 1. CORPORATE INFORMATION

The Company is a public listed company incorporated in Bermuda and its shares are listed on the Stock Exchange of Hong Kong Limited. The address of its registered office is Clarendon House, Church Street, Hamilton HM11, Bermuda.

In the opinion of the Directors, the ultimate holding company is Winsley which is incorporated in Hong Kong.

During the year, the Group was engaged in the following principal activities:

- marketing and distribution of automotive products
- property holding for rental income purposes

## 2. BASIS OF PRESENTATION

During the year, the trading conditions for the Group's principal business of the trading of automotive products were adversely affected by certain government regulations regarding the import of automotive products into the PRC.

In order to improve the Group's financial position, immediate liquidity, cash flows, profitability and operations, the Directors adopted the following measures:

(a) the Directors are in active negotiations with the Group's bankers to secure new facilities to meet the immediate repayments of amounts demanded by its principal banker;

(b) the Directors are considering to increase the capital base of the Group through various fund-raising exercises, including, but not limited to, private placements of the Company's new shares; and

(c) the Directors have taken action to reduce costs.

In the opinion of the Directors, if the above measures accomplish the expected results, the Group will have sufficient working capital for its current requirements and it is reasonable to expect the Group to return to a commercially viable concern. Therefore, the Directors considered that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial position and tight cash flows as at 31 December 2005.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the value of all assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively. The effects of these adjustments have not been reflected in the financial statements.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 2. BASIS OF PRESENTATION (Continued)

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, except for certain financial instruments, which are measured at fair value as explained in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRS requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or the use of accounting estimates, which are significant to the consolidated financial statements, are disclosed in notes 34 and 35 respectively.

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied, for the first time, a number of new HKFRSs, Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA below which are relevant to its operations and are effective for accounting periods beginning on or after 1 January 2005.

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS Int 15 | Operating Leases – Incentives |
| HKFRS 2 | Share-based Payment |
| HK-Int 4 | Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The adoption of HKASs 1, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 27, 33, 36, 37, HKAS Int 15 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements. The impact of adopting the other HKFRSs is summarized as follows: –

a) Owner-occupied leasehold interest in land (HKAS 17 Leases)

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed asset to land lease prepayment, while leasehold buildings continue to be classified as part of fixed assets. Land lease prepayment under operating leases is initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

The effects of the above change in accounting policy are summarized below.

(i) Pursuant to HKAS 8 (which outlines the disclosure requirements when a change in accounting policy has a material effect on the current and prior periods presented), the Group has retrospectively restated the following items to take into account the effects of change in the above accounting policy.

| | **Effects of adopting HKAS 17**<br>HK$'000 |
|---|---|
| **Consolidated profit and loss account** | |
| *Effects on periods prior to 2004* | |
| Increase in administrative expenses | (482) |
| Increase in accumulated losses | (482) |
| *Effects on year ended 31 December 2004* | |
| Increase in other revenue | 91 |
| Decrease in administrative expenses | 11 |
| Increase in profit attributable to shareholders | 102 |
| Increase in earnings per share – Basic | 0.12 cents |
| **Consolidated balance sheet** | |
| *Effects as at 31 December 2004* | |
| Decrease in fixed assets | (10,620) |
| Increase in land lease prepayment | 10,240 |
| Increase in net liabilities | (380) |

# Notes to the Financial Statements

For the year ended 31 December 2005

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

a) Owner-occupied leasehold interest in land (HKAS 17 Leases) (Continued)

(ii) The following table provides estimates of the extent to which each of the line items in the consolidated profit and loss account, and the consolidated balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

| | **Estimated effects of adopting HKAS 17** |
|---|---|
| | HK$'000 |
| **Consolidated profit and loss account** | |
| *Estimated effects on year ended 31 December 2005* | |
| Decrease in other revenue | (157) |
| Decrease in administrative expenses | 9 |
| Increase in loss attributable to shareholders | (148) |
| Increase in loss per share – Basic | (0.01 cent) |
| **Consolidated balance sheet** | |
| *Estimated effects as at 31 December 2005* | |
| Decrease in fixed assets | (14,968) |
| Increase in land lease prepayment | 14,440 |
| Decrease in net assets | (528) |

b) Definition of related parties (HKAS 24 Related party disclosures)

As a result of the adoption of HKAS 24 Related party disclosures, the definition of related parties as disclosed in note 4(p) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. HKAS 24 has affected the identification of related parties and some other related-party disclosures, as compared to those that would have been reported had SSAP 20 Related party disclosures, still been in effect.

## 3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

c) Financial instruments (HKAS 32 Financial instruments: Disclosure and presentation and HKAS 39 Financial instruments: Recognition and measurement)

With effect from 1 January 2005, in order to comply with HKAS 32 and HKAS 39, the Group has changed its accounting policies relating to financial instruments. These HKASs have had no significant impact for these financial statements on the amounts recorded. However, the related note disclosures are now more extensive than previously required.

d) Employee share option scheme (HKFRS 2 Share-based payment)

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognises the fair value of such share options as an expense with a corresponding increase recognised in a capital reserve within equity. Further details of the new policy are set out in note 4(o)(ii).

No adjustments to the opening balances as at 1 January 2004 are required and no amounts of share options were recognised since no options have been granted since the approval of the share option scheme. Details of the employee share option scheme are set out in note 24.

The Group has not applied any new standard of interpretation that is not yet effective for the current accounting period (see note 36).

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

b) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of Directors. Subsidiaries are considered to be controlled if the company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (note 4(f)), unless the investment is classified as held for sale.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### c) Fixed assets and depreciation

Fixed assets 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 its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an asset, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated to write off the cost of items of fixed assets less their estimated residual value, if any, using the straight line method over their estimated useful lives at the annual rates as follows:

| | |
|---|---|
| Leasehold building | Over the unexpired lease term of the land |
| Leasehold improvements | Over their expected useful lives or the term of the relevant lease whichever shorter |
| Furniture and fixtures | 30% |
| Office equipment | 30% |
| Motor vehicles | 30% |

Where parts of an item of fixed asset have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The assets' residual values, useful lives and depreciated method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement of a fixed asset recognised in the consolidated profit and loss account in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### d) Land lease prepayments

Land lease prepayments under operating leases are up-front payments to acquire long term interest in lessee-occupied properties. Land lease prepayments are stated at cost less accumulated amortisation and any impairment, and are amortised over the remaining lease terms on the straight-line basis to the profit and loss account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

f) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

g) Trade and other receivable

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, demand deposits with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of consolidated cash flow statement.

i) Other payables

Other payables are initially recognised at fair value ad thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

j) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowing are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings using the effective interest method.

k) Income tax

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account.

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

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Income tax (Continued)

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

l) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

m) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in profit and loss account.

On consolidation, the results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

n) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(ii) rental income, on the straight-line basis over the lease terms; and

(iii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

a) Contributions to MPF as required under the Hong Kong MPF Ordinance, are recognised as an expense in the profit and loss account as incurred.

b) Employee entitlements to annual leave and long service payment are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service payment as a result of services rendered by employees up to the balance sheet date.

Employment entitlements to sick leave and maternity or paternity leave are not recognised until the time of leave.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the binomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### p) Related parties

For the purpose of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

### q) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and fixed assets. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Unallocated costs represent mainly corporate and inactive subsidiaries' expenses.

In respect of geographical segment reporting, turnover and results are based on the country in which the customers are located. Segment assets and capital expenditure are based on where the assets are located.

### r) Post balance sheet events

Post balance sheet events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post balance sheet events that are not adjusting events are disclosed in the notes when material.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 5. FINANCIAL RISK MANAGEMENT

The principal financial instruments of the Group comprise the amount due to a related party, secured bank borrowings and bank balances and cash. The main purpose of these financial instruments is to finance the operations of the Group.

i) Foreign currency risk

Since all the purchases of inventories had been fixed at an agreed exchange rate prior to the confirmation of purchase orders by the Group to its vendors, the Group had no exposure to fluctuation in exchange rates and any related hedges.

ii) Credit risk

During the year, the Group had no exposure to credit risk due to tight control of working capital management on the credit policies.

iii) Cash flow interest rate risks

The Group is exposed to interest rate risk through the impact of rate changes on interest- bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 22.

iv) Price risk

The Group was not exposed to equity securities price risk during the year, since it held no investments which were classified as available-for-sale financial assets or as financial assets at fair value through the profit and loss account. In addition, the Group was not exposed to commodity price risk.

v) Liquidity risk

The Group is exposed to liquidity risk. At 31 December 2005, the current liabilities of the Group exceeded its current assets by approximately HK$15,347,000. The maintenance of the Group as a going concern is mainly dependent on the successful outcome of the Group's funding plans and the ongoing support from the Group's bankers.

## 6. TURNOVER

Turnover represents the invoiced value of inventories sold, net of discounts and returns, and rental income.

The amount of each significant category of revenue recognised in turnover during the year is as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Trading of automotive parts | **4,288** | 2,040 |
| Gross rental income | **200** | 200 |
| | **4,488** | 2,240 |

## 7. OTHER REVENUE

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Bad debt recovered | **288** | 312 |
| Gain on disposal of fixed assets | **–** | 15 |
| Interest income | **1** | 1 |
| Reversal of impairment loss on land lease prepayment | **4,438** | 5,051 |
| Others | **–** | 77 |
| | **4,727** | 5,456 |

# Notes to the Financial Statements

For the year ended 31 December 2005

## 8. PROFIT FROM OPERATING ACTIVITIES

Profit from operating activities is arrived at after charging/(crediting) the following:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Cost of inventories | **4,121** | 2,069 |
| Auditors' remuneration | **186** | 216 |
| Amortisation of land lease prepayment | **238** | 121 |
| Depreciation | **49** | 49 |
| Loss on write-off of assets of a subsidiary (Note) | **992** | – |
| Bad debt provision | **8** | – |
| Foreign exchange losses/(gains), net | **43** | (1) |
| Staff costs (including directors' remuneration – Note 10) | | |
| – salaries, allowances and other benefits | **2,290** | 1,942 |
| – MPF contributions | **48** | 48 |
| Reversal of impairment loss on land lease prepayment | **(4,438)** | (5,051) |
| Bad debt recovered | **(288)** | (312) |
| Gain on disposal of fixed assets | **–** | (15) |
| Interest income | **(1)** | (1) |
| Net rental income | **(200)** | (200) |

*Note:*

One of the Group's subsidiaries, Victory (Tianjin) International Trading Limited was dormant throughout the last two years. During the current year, the Group has lost contact with the 代表法人 of that subsidiary and, as a result, the Directors were unable to provide the books and records of that subsidiary in the PRC for the purpose of preparing the Group's financial statements. To be prudent, the Directors decided to write off the assets of the subsidiary which were included in the Group's financial statements in previous year. On the other hand, the Directors are currently taking proper actions to ensure the recoverability of the assets, if any, of the subsidiary written off.

## 9. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Bank interest – wholly repayable within 5 years: | | |
| Interest on bank overdrafts | **971** | 1,295 |
| Mortgage loans | **379** | 338 |
| | **1,350** | 1,633 |

## 10. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is presented in the "Corporate Governance Report".

## 11. SENIOR EXECUTIVES' EMOLUMENTS

The five highest paid employees during the year included two (2004: two) Directors, details of whose remuneration are set out in the "Corporate Governance Report". Details of the remuneration of the remaining three (2004: three) highest paid, non-director employees during the year are as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Salaries and allowances | **904** | 902 |
| MPF contribution | **29** | 29 |
| Long service payment | **3** | (16) |
| | **936** | 915 |

The remuneration of the above non-director, highest paid employees fell within the band of Nil to HK$1,000,000 in both years.

During the year, no emoluments were paid by the Group to the highest paid, non-director employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 12. TAXATION

a) Taxation in the consolidated profit and loss account represents:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Provision for Hong Kong Profits Tax for the year | **–** | – |

Hong Kong profits tax has been provided for at 17.5% (2004: 17.5%) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

b) Reconciliation between taxation charge and the Group's accounting (loss)/profit at applicable tax rates is set out below:

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| (Loss)/profit before taxation | **(1,175)** | 111 |
| Calculated at a taxation rate of 17.5 per cent (2004: 17.5 per cent) | **(205)** | 19 |
| Tax effect of: | | |
| – income not subject to taxation | **(777)** | (884) |
| – expenses not deductible for taxation purposes | **419** | 276 |
| – prior year's unrecognised deferred tax asset from impairment of land utilized in this year | **(60)** | (105) |
| – unrecognised deferred tax assets in respect of tax losses | **623** | 694 |
| Taxation charge | **–** | – |

*Note:* The domestic tax rate in Hong Kong is used as it is where the operation of the Group is substantially based.

## 13. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK$6,902,000 (2004: HK$12,049,000).

## 14. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net loss attributable to shareholders for the year of HK$1,175,000 (net profit attributable to shareholders in 2004: HK$111,000, as restated) and the weighted average of 1,088,087,000 (2004: 86,610,000 ordinary shares after adjusting for the consolidation of shares on 20 December 2005) ordinary shares in issue during the year.

Diluted (loss)/earnings per share for both years had not been calculated as no diluting events existed during those years.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 15. FIXED ASSETS

**Group**

| | Leasehold building HK$'000 | Leasehold improvement HK$'000 | Furniture and fixtures HK$'000 | Office equipment HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2004 | | | | | | |
| As previously reported | 23,606 | 69 | 567 | 1,107 | 4,654 | 30,003 |
| Reclassified to land lease prepayment upon adoption of HKAS 17 | (20,945) | – | – | – | – | (20,945) |
| As restated | 2,661 | 69 | 567 | 1,107 | 4,654 | 9,058 |
| Disposal | – | – | – | – | (2,109) | (2,109) |
| At 31 December 2004 and 1 January 2005 | | | | | | |
| As restated | 2,661 | 69 | 567 | 1,107 | 2,545 | 6,949 |
| Disposal | – | – | – | – | (124) | (124) |
| At 31 December 2005 | 2,661 | 69 | 567 | 1,107 | 2,421 | 6,825 |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2004 | | | | | | |
| As previously reported | 15,686 | 69 | 567 | 1,105 | 4,654 | 22,081 |
| Reclassified to land lease prepayment upon adoption of HKAS 17 | (15,153) | – | – | – | – | (15,153) |
| As restated | 533 | 69 | 567 | 1,105 | 4,654 | 6,928 |
| Charge for the year | 48 | – | – | 1 | – | 49 |
| Written back on disposal | – | – | – | – | (2,109) | (2,109) |
| At 31 December 2004 and 1 January 2005 | | | | | | |
| As restated | 581 | 69 | 567 | 1,106 | 2,545 | 4,868 |
| Charge for the year | 48 | – | – | 1 | – | 49 |
| Written back on disposal | – | – | – | – | (124) | (124) |
| At 31 December 2005 | 629 | 69 | 567 | 1,107 | 2,421 | 4,793 |
| **Net book value** | | | | | | |
| At 31 December 2005 | 2,032 | – | – | – | – | 2,032 |
| At 31 December 2004 | | | | | | |
| As restated | 2,080 | – | – | 1 | – | 2,081 |

## 15. FIXED ASSETS (Continued)

The Group's building is situated in Hong Kong and is held on medium term land lease.

The above leasehold building carried at a net book value of HK$2,032,000 (2004: HK$2,080,000, as restated) have been pledged to secure banking facilities as set out in note 22.

The balances in respect of leasehold building as at 1 January 2004, 31 December 2004 and 1 January 2005 as previously reported included the land element of the leasehold properties, which is now disclosed as "land lease prepayment".

### Impairment loss

Impairment loss on the leasehold building was assessed to determine its recoverable amount. The estimate of the recoverable amount was based on fair value less costs to sell of the leasehold building, which was determined with reference to the valuations performed by Vigers, an independent professional valuer on a depreciated replacement cost basis. Based on the valuations, the building value was assessed to be HK$2,560,000 and HK$2,460,000 for the years ended 31 December 2005 and 2004 respectively. No impairment loss on the leasehold building was provided for both years presented, since the recoverable amounts were higher than the net book values of the leasehold building.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 16. LAND LEASE PREPAYMENT

| | Group |
|---|---|
| | HK$'000 |
| **Cost** | |
| At 1 January 2004 | |
| As previously reported | – |
| Reclassification upon adoption of HKAS 17 | 20,945 |
| At 1 January 2004, 31 December 2004 and 1 January 2005 (as restated) | 20,945 |
| At 31 December 2005 | 20,945 |
| **Accumulated amortisation and impairment loss** | |
| At 1 January 2004 | |
| As previously reported | – |
| Reclassification upon adoption of HKAS 17 | |
| Amortisation | 1,294 |
| Impairment loss | 14,341 |
| As restated | 15,635 |
| Amortisation for the year | 121 |
| Reversal of impairment loss | (5,051) |
| At 31 December 2004 and 1 January 2005 (as restated) | 10,705 |
| Amortisation for the year | 238 |
| Reversal of impairment loss | (4,438) |
| At 31 December 2005 | 6,505 |
| **Net book value** | |
| At 31 December 2005 | 14,440 |
| At 31 December 2004 (as restated) | 10,240 |

## 16. LAND LEASE PREPAYMENT (Continued)

At 31 December 2005, the Group's land lease prepayment of HK$ 14,440,000 (2004: HK$ 10,240,000) comprise medium term leasehold land situated in Hong Kong.

| | 2005 | 2004 |
|---|---|---|
| | HK$'000 | HK$'000 |
| | | (Restated) |
| Analysed for reporting purposes as: | | |
| Current asset | **344** | 238 |
| Non-current asset | **14,096** | 10,002 |
| | **14,440** | 10,240 |

The above land carried at a net book value of HK$14,440,000 (2004: HK$10,240,000, as restated) has been pledged to secure banking facilities as set out in note 22.

### Impairment Loss

Impairment loss on the land lease was assessed to determine its recoverable amount. Reversals of impairment loss of HK$4,438,000 and HK$5,051,000 were credited to the profit and loss accounts for the years ended 31 December 2005 and 2004 respectively as a result of significant increase in fair market values. The estimate of the recoverable amount was based on fair value less costs to sell of the land lease, which was determined with reference to the valuations performed by Vigers, an independent professional valuer by reference to comparable market transactions. Based on the valuations, the land lease value was assessed to be HK$14,440,000 and HK$10,240,000 for the years ended 31 December 2005 and 2004 respectively.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 17. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **76,309** | 76,309 |
| Amounts due from subsidiaries | **79,096** | 73,231 |
| | **155,405** | 149,540 |
| Impairment loss | **(155,405)** | (149,540) |
| | **–** | – |

The amounts due from subsidiaries are unsecured, interest-free, and have no fixed terms of repayment. In the opinion of the Directors, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amounts were classified as non-current assets. Given such repayment terms, it is not meaningful to disclose their fair values.

Details of the principal subsidiaries are as follows:

| Name of company | Place of incorporation/ registration and operation | Nominal value of issued/ registered share capital | Attributable Equity Interest Direct | Attributable Equity Interest Indirect | Principal activities |
|---|---|---|---|---|---|
| Victory Group (BVI) Limited # | British Virgin Islands | Ordinary HK$100,000 | 100% | – | Investment holding |
| Victory Motors Centre Limited | Hong Kong | Ordinary HK$1,000<br>Non-voting deferred HK$3,000,000 | – | 100% | Trading of automotive products |
| Victory Realty Limited | Hong Kong | Ordinary HK$10,000 | – | 100% | Dormant |

## 17. INTERESTS IN SUBSIDIARIES (Continued)

| Name of company | Place of incorporation/ registration and operation | Nominal value of issued/ registered share capital | Attributable Equity Interest Direct | Attributable Equity Interest Indirect | Principal activities |
|---|---|---|---|---|---|
| Hong Kong Waho Development Limited | Hong Kong | Ordinary HK$1,000,000 | – | 100% | Property holding |
| Waret Investment Limited | Hong Kong | Ordinary HK$2 | – | 100% | Dormant |
| Victory (Tianjian) International Trading Limited*# | The PRC | US$1,000,000 | – | 100% | Dormant |
| Victory H-Tech Company Limited | Hong Kong | Ordinary HK$100,000 | – | 100% | Dormant |

* *Wholly foreign-owned enterprise*

\# *Not audited by Lak & Associates C.P.A. Limited*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 18. TRADE RECEIVABLES, PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Trade receivables, prepayments, deposits and other receivables | **174** | 125 | **73** | 73 |

All of the trade receivables, prepayments, deposits and other receivables are expected to be recovered within one year.

Included in trade and other receivables are trade receivables (net of specific provisions for bad and doubtful debts) with the following aging analysis:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 3 months | **50** | – | **–** | – |

Normally, debts are due within 28 days from the date of billing. Debtors with balances that are more than 3 months overdue are requested to settle all outstanding balances before any further credit is granted.

The carrying amounts of trade receivables, prepayments, deposits and other receivables approximate their fair values.

## 19. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Other payables | **2,003** | 1,976 | **–** | – |
| Accruals | **1,745** | 1,530 | **399** | 529 |
| | **3,748** | 3,506 | **399** | 529 |

All of the other payables and accruals are expected to be settled within one year.

## 19. OTHER PAYABLES AND ACCRUALS (Continued)

All other payables are overdue for more than one year. Included in the other payables is an amount of approximately HK$1,949,000 (2004: HK$1,922,000) payable to an independent creditor. No interest was accrued by the management in accordance with a verbal agreement reached between the creditor and the directors of Victory Motors Centre Limited as set out in note 27(d).

Included in the accruals was accrued bank loan interest of HK$778,000 (2004: HK$440,000) which was overdue for more than one year. Details of the accrued bank loan interest are set out in note 27(b).

Included in other payables and accruals are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **'000** | '000 | **'000** | '000 |
| United States Dollars | **US$2** | US$2 | **US$2** | US$4 |
| Renminbi | **RMB1,300** | RMB1,300 | **–** | – |

The carrying amounts of other payables and accruals approximate their fair values.

## 20. AMOUNT DUE TO A RELATED PARTY

The amount due to a related party is unsecured, interest free and repayable on demand.

## 21. AMOUNT DUE TO A SUBSIDIARY

The amount due to a subsidiary is unsecured, interest free and has no fixed term of repayment. In the opinion of the Directors, no repayment will be demanded within the next twelve months from the balance sheet date. Accordingly, the amount is shown as a non-current liability. Given such repayment term, it is not meaningful to disclose its fair value.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 22. BANK BORROWINGS, SECURED

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank overdrafts (including accrued interest) | **2,201** | 6,242 | **–** | 11 |
| Bank loans | **8,317** | 8,317 | **–** | – |
| | **10,518** | 14,559 | **–** | 11 |
| Bank overdrafts repayable within one year, or on demand | **2,201** | 6,242 | **–** | 11 |
| Bank loans repayable: | | | | |
| Within one year | **8,317** | 8,317 | **–** | – |
| In the second year | **–** | – | **–** | – |
| In the second to fifth years inclusive | **–** | – | **–** | – |
| Beyond five years | **–** | – | **–** | – |
| | **8,317** | 8,317 | **–** | – |
| | **10,518** | 14,559 | **–** | 11 |
| Portion classified as current liabilities | **(10,518)** | (14,559) | **–** | (11) |
| Non-current portion | **–** | – | **–** | – |

The above bank overdrafts included accrued bank overdraft interest of HK$2,259,000 (2004: HK$ 1,289,000). Bank overdraft interest was calculated at Hong Kong prime rate plus 10% for both years presented.

The above bank loans carry interest at variable rates ranging from 4.5% to 7% (2004: 4.5% to 4.6%)

The carrying amounts of bank borrowings approximate their fair values.

The Group's bank loans of HK$8,317,000 (2004: HK$8,317,000) and bank overdrafts of HK$2,201,000 (2004: HK$6,231,000) are secured by the leasehold building and land of the Group with an aggregate net book value of HK$16,472,000 at 31 December 2005 (2004: HK$12,320,000, as restated).

## 22. BANK BORROWINGS, SECURED (Continued)

Since the financial year ended 31 December 2002, the banker of the Group has frozen the banking facilities granted to the Company and certain subsidiaries due to their failure to keep up with the repayment schedules. As a result, all the outstanding balances of the interest-bearing bank borrowings are classified as current liabilities, which are repayable within one year, or on demand.

In previous years, the Group disposed of all of the Group's investment properties in consideration of HK$2,800,000 and HK$8,500,000 respectively. The proceeds of the disposals were used for partial repayments of the bank overdrafts. During the year, a repayment amounting to HK$5,000,000 was made to the bank by the Group in respect of the bank overdraft. In this regard, the banker did not demand for immediate repayment of the bank borrowings up to the date of approval of the financial statements. Under such circumstances, the bank loans were not classified as short-term bank loan with maturity within three months in the consolidated cash flow statement.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 23. DEFERRED TAXATION

(a) The Group

The components of deferred tax liabilities recognised in the Consolidated Balance Sheet and the movements during the year are as follows:

| Deferred tax arising from: | Accelerated tax depreciation | Impairment loss of land lease prepayment | Tax losses | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2004 | 307 | (307) | – | – |
| Charged/(credited) to consolidated profit and loss account | | | | |
| As previously reported | 62 | (62) | – | – |
| Prior period adjustment arising from adoption of HKAS 17 | 1 | (1) | – | – |
| As restated | 63 | (63) | – | – |
| At 31 December 2004 (as restated) | 370 | (370) | – | – |
| At 1 January 2005 | | | | |
| As previously reported | 369 | (369) | – | – |
| Prior period adjustment arising from adoption of HKAS 17 | 1 | (1) | – | – |
| As restated | 370 | (370) | – | – |
| Charged/(credited) to consolidated profit and loss account | 53 | (53) | – | – |
| At 31 December 2005 | 423 | (423) | – | – |

At 31 December 2005, the Group has unused tax losses of HK$117,273,000 (2004: HK$113,744,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The tax losses can be carried forward indefinitely.

23. DEFERRED TAXATION (Continued)

(a) The Group (Continued)

In addition, the Group has deductible temporary differences of HK$4,869,000 (2004: HK$9,310,000, as restated). Deferred tax assets have been recognised in respect of HK$2,419,000 (2004: HK$2,115,000, as restated) of such differences. No deferred tax assets have been recognised in respect of the remaining HK$2,450,000 (2004: HK$7,195,000, as restated) due to the unpredictability of future profit streams from such asset.

(b) The Company

The Company has no material deferred taxation for the year and at the balance sheet date (2004: HK$Nil).

24. SHARE CAPITAL

Details of the changes in the Company's share capital which occurred between 1 January 2005 and 31 December 2005 are as follows:

Top-up Placing

Pursuant to a resolution passed in the meeting of the Board on 20 September 2005, the Company issued by means of placing a total new ordinary shares of 215,000,000 ordinary shares of HK$0.01 each at a price of HK$0.035 on 6 October 2005 to Winsley. The aggregate nominal value of the issued shares was HK$7,525,000; the share premium arising on the issue of shares was HK$5,375,000 and the share issue expenses amounted to HK$458,000. The net proceeds amounting to approximately HK$7,067,000 were mainly used for the repayment of bank overdraft of HK$5,000,000 (note 22) and as the general working capital of the Group.

Share Consolidation

Pursuant to an ordinary resolution passed at the special general meeting held on 20 December 2005, every ten issued and unissued ordinary shares of HK$0.01 each in the share capital of the Company were consolidated into one consolidated share of HK$0.10 each in the capital of the Company.

Share options

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to employees including the executive directors of the Company or of its subsidiaries ("Eligible Participants") who contribute to the success of the Group's operations.

On 22 January 1998, the Company conditionally approved the Scheme under which the Directors may, at their discretion, grant options to Eligible Participants, to subscribe for shares of the Company during the 10 years from its date of approval. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 16 February 1998 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. No options have been granted since the approval of the Scheme.

Under the Scheme, the Directors may at their discretion grant options at HK$1.00 per option to Eligible Participants to subscribe for shares at a price calculated in accordance with paragraph below.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 24. SHARE CAPITAL (Continued)

The subscription price of the options may be determined by the Directors and shall be the higher of the nominal value of a share and 80 per cent of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the grant date of the options. The maximum number of shares over which options may be granted must not exceed 10 per cent of the issued share capital of the Company from time to time, excluding for this purpose shares issued pursuant to the Scheme. No options may be granted to any person which, if exercised in full, would result in the total number of shares already issued and issuable to him under the Scheme exceeding 25 per cent of the aggregate number of shares subject to the Scheme, at the time it is proposed to grant the relevant option to such person.

| | Company | | | |
|---|---|---|---|---|
| | **No. of shares** | | **Share capital** | |
| | **2005** | 2004 | **2005** | 2004 |
| | | | **HK$'000** | HK$'000 |
| **Authorised:** | | | | |
| At the beginning of the year | | | | |
| Ordinary shares of HK$0.01 each | **2,205,586,400** | 2,205,586,400 | **22,056** | 22,056 |
| Share consolidation into HK$0.1 each | **(1,985,027,760)** | – | **–** | – |
| At the end of the year | | | | |
| Ordinary shares of HK$0.1 each | | | | |
| (2004: HK$0.01 each) | **220,558,640** | 2,205,586,400 | **22,056** | 22,056 |
| **Issued and fully paid:** | | | | |
| At the beginning of the year | | | | |
| Ordinary shares of HK$0.01 each | | | | |
| (2004: HK$0.01 each) | **1,075,011,600** | 379,911,600 | **10,750** | 3,799 |
| Placing | **215,000,000** | 695,100,000 | **2,150** | 6,951 |
| Share consolidation into HK$0.1 each | **(1,161,010,440)** | – | **–** | – |
| At the end of the year | | | | |
| Ordinary shares of HK$0.1 each | | | | |
| (2004: HK$0.01 each) | **129,001,160** | 1,075,011,600 | **12,900** | 10,750 |

# Notes to the Financial Statements

For the year ended 31 December 2005

## 25. RESERVES

**Group**

| | Share premium account HK$'000 | Contributed surplus# HK$'000 | Enterprise expansion fund* HK$'000 | Exchange fluctuation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2004 | | | | | | |
| As previously reported | 39,698 | 710 | 445 | (165) | (61,137) | (20,449) |
| Prior year adjustments upon adoption of HKAS 17 | – | – | – | – | (482) | (482) |
| As restated | 39,698 | 710 | 445 | (165) | (61,619) | (20,931) |
| Arising on issue of shares | 5,561 | – | – | – | – | 5,561 |
| Share issue expenses | (646) | – | – | – | – | (646) |
| Profit for the year (as restated) | – | – | – | – | 111 | 111 |
| At 31 December 2004 (as restated) | 44,613 | 710 | 445 | (165) | (61,508) | (15,905) |
| At 1 January 2005 | | | | | | |
| As previously reported | 44,613 | 710 | 445 | (165) | (61,128) | (15,525) |
| Prior year adjustments upon adoption of HKAS 17 | – | – | – | – | (380) | (380) |
| As restated | 44,613 | 710 | 445 | (165) | (61,508) | (15,905) |
| Arising on issue of shares | 5,375 | – | – | – | – | 5,375 |
| Share issue expenses | (458) | – | – | – | – | (458) |
| Loss for the year | – | – | – | – | (1,175) | (1,175) |
| At 31 December 2005 | 49,530 | 710 | 445 | (165) | (62,683) | (12,163) |

# *The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange.*

* *The enterprise expansion fund is maintained, and annual allocations to the fund are made, in accordance with the Joint Venture Law of the PRC.*

## 25. RESERVES (Continued)

**Company**

| | Share premium account HK$'000 | Contributed surplus# HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2004 | 39,698 | 64,809 | (108,825) | (4,318) |
| Arising on issue of shares | 5,561 | – | – | 5,561 |
| Share issue expenses | (646) | – | – | (646) |
| Loss for the year | – | – | (12,049) | (12,049) |
| At 31 December 2004 | 44,613 | 64,809 | (120,874) | (11,452) |
| At 1 January 2005 | 44,613 | 64,809 | (120,874) | (11,452) |
| Arising on issue of shares | 5,375 | – | – | 5,375 |
| Share issue expenses | (458) | – | – | (458) |
| Loss for the year | – | – | (6,902) | (6,902) |
| At 31 December 2005 | 49,530 | 64,809 | (127,776) | (13,437) |

# *The Company's contributed surplus represents the excess of the fair value of the subsidiary's shares acquired pursuant to the reorganisation on 22 January 1998, over the nominal value of the Company's shares issued in exchange. Under the Companies Act 1981 of Bermuda, a distribution may be made out of the contributed surplus in certain circumstances.*

## 26. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **598** | 2,777 | **17** | 1 |
| Cash and cash equivalents in the balance sheet | **598** | 2,777 | **17** | 1 |
| Bank overdrafts (note 22) | **(2,201)** | (6,242) | | |
| Cash and cash equivalents in the consolidated cash flow statement | **(1,603)** | (3,465) | | |

Bank balances earn interest at floating rates based on daily bank deposits rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Included in cash and bank balances are the following amounts denominated in a currency other than the functional currency of the entity to which they related:

| | | |
|---|---|---|
| United States Dollars | USD | 885 |
| Japanese Yen | JPY | 1,660,106 |
| Renminbi | RMB | 226 |

As explained in note 22, the bank loan of approximately HK$8,317,000 at the balance sheet date was classified as current liabilities and was repayable within one year, or on demand. Because the Group repaid partially the bank overdraft with the proceeds of disposal of all of the Group's investment properties in previous years and repaid HK$5,000,000 in the current year, the banker did not demand for immediate repayment of the bank loan up to the date of approval of the financial statements. Under such circumstances, the bank loan was not classified as a bank loan with maturity within three months.

If the Group had failed to keep up with the repayment schedule, the banker would demand immediate repayment of the bank loan. Consequently, the bank loan would be classified as a short-term bank loan with maturity within three months and the cash and cash equivalents as at 31 December 2005 would be as follows: –

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cash and bank balances | **598** | 2,777 |
| Bank overdrafts, secured | **(2,201)** | (6,242) |
| Bank loan with maturity within 3 months | **(8,317)** | (8,317) |
| | **(9,920)** | (11,782) |

## 27. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the audited financial statements were as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Banking facilities guaranteed by the Company which were utilised by the subsidiaries | **–** | – | **11,675** | 15,326 |

(b) Included in the bank borrowings was a mortgage bank loan with principal amount of HK$ 8,317,000 as at 31 December 2005. There was no repayment from the Group since 14 November 2002. The accrued interest of HK$1,157,000 (2004: HK$778,000) was provided and included in the consolidated balance sheet as other payables and accruals. No further liabilities were provided for the late repayment as there is no information available to quantify the further liability arisen from the late repayment, any penalty charge and other liability if any thereof.

(c) Included in the bank borrowings was a bank overdraft of HK$ 2,201,000 as at 31 December 2005. There was no repayment from the Group since August 2003. During the year, HK$5,000,000 was repaid to the bank by the Group. The accrued interest of HK$2,259,000 was provided and included in the bank overdraft. No further liabilities were provided for the non-repayment as there is no information available to quantify the further liability arisen from the non-repayment, any penalty charge and other liability if any thereof.

(d) Included in other payables was an outstanding loan of HK$1,949,000 (2004: HK$ 1,922,000) due to an independent creditor. The outstanding amount has been brought forward for many years. However, the amount confirmed by the creditor as stated in the latest audit confirmation regarding the balance as at 31 December 2004 was HK$3,200,000. That sum included an accumulated interest amount of HK$1,278,000 which was without any contractual or legal basis and was without any written or supporting documents. No accrued interest has been provided in the financial statements since year 1997 in accordance with a verbal agreement reached between the creditor and the directors of Victory Motors Centre Limited. In addition, the Group did not enter into any written agreement with the creditor regarding the repayment terms, interest charge or security over the loan. Based on the legal advice, no interest shall be charged or payable on the said loan as an oral agreement is enforceable and binding even though the confirmation included the interest amount.

Up to the date of issuance of these financial statements, no reply for the audit confirmation regarding the balance of the outstanding loan as at 31 December 2005 has been received from the creditor. Therefore, the amount of contingent liabilities in respect of the accumulated interest as at 31 December 2005, if any, cannot be quantified.

## 28. LEASING ARRANGEMENTS

The Group leases out a portion of the land and building, which is used as its operating premises, to third parties under operating leases. The leases run for 1 year.

During the current year, HK$200,000 (2004: HK$200,000) was recognised as rental income in the consolidated profit and loss account in respect of operating leases.

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | Group | |
|---|---|---|
| | **2005** | 2004 |
| | **HK$'000** | HK$'000 |
| Within 1 year | **150** | 150 |

## 29. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

In respect of geographical segment reporting, turnover is based on the country in which the customers are located.

a) Business segments

The Group comprises the following main business segments:

Trading of automotive products.

Property investment – leasing of office premises.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 29. SEGMENT REPORTING (Continued)

### a) Business segments (Continued)

| | Trading of automotive products | | Property investment | | Unallocated | | Inter-segment elimination | | Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 (Restated) | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 | 2005 HK$'000 | 2004 HK$'000 (Restated) |
| **Segment revenue** | | | | | | | | | | |
| Revenue from external customers | **4,288** | 2,040 | **200** | 200 | **-** | – | **-** | – | **4,488** | 2,240 |
| Inter-segment revenue | **-** | – | **540** | 720 | **-** | – | **(540)** | (720) | **-** | – |
| Other revenue from external customers | **288** | 404 | **-** | – | **-** | – | **-** | – | **288** | 404 |
| Other revenue – reversal of impairment loss on land lease prepayment | **-** | – | **4,438** | 5,051 | **-** | – | **-** | – | **4,438** | 5,051 |
| Total | **4,576** | 2,444 | **5,178** | 5,971 | **-** | – | **(540)** | (720) | **9,214** | 7,695 |
| **Segment result** | **(2,634)** | (2,675) | **4,879** | 5,789 | **(1,079)** | (1,371) | **-** | – | **1,166** | 1,743 |
| Inter-segment transactions | **540** | 720 | **(540)** | (720) | **-** | – | **-** | – | **-** | – |
| (Loss)/contribution from operations | **(2,094)** | (1,955) | **4,339** | 5,069 | **(1,079)** | (1,371) | **-** | – | **1,166** | 1,743 |
| Interest income | | | | | | | | | **1** | 1 |
| Loss on write off the assets of a subsidiary | | | | | | | | | **(992)** | – |
| Finance costs | | | | | | | | | **(1,350)** | (1,633) |
| (Loss)/profit before taxation | | | | | | | | | **(1,175)** | 111 |
| Taxation | | | | | | | | | **-** | – |
| (Loss)/profit attributable to shareholders | | | | | | | | | **(1,175)** | 111 |
| **Segment assets** | **572** | 1,790 | **16,570** | 12,368 | **102** | 1,065 | **-** | – | **17,244** | 15,223 |
| Total assets | | | | | | | | | **17,244** | 15,223 |
| **Segment liabilities** | **9,413** | 8,444 | **789** | 584 | **2,988** | 3,008 | **-** | – | **13,190** | 12,036 |
| Bank loan | | | | | | | | | **3,317** | 8,317 |
| Tax liabilities | | | | | | | | | **-** | 25 |
| Total liabilities | | | | | | | | | **16,507** | 20,378 |
| **Other information** | | | | | | | | | | |
| Bad debts recovered | **288** | 312 | **-** | – | **-** | – | **-** | – | **288** | 312 |
| Bad debt provision | **(8)** | – | **-** | – | **-** | – | **-** | – | **(8)** | – |
| Depreciation and amortisation of land lease prepayment | **(1)** | (1) | **(286)** | (169) | **-** | – | **-** | – | **(287)** | (170) |
| Write off of inventories | **-** | (369) | **-** | – | **-** | – | **-** | – | **-** | (369) |

## 29. SEGMENT REPORTING (Continued)

### a) Business segments (Continued)

Segment assets consist primarily of fixed assets, land lease prepayments, receivables, net of allowance and provisions and operating cash, while most such assets can be directly attributed to individual segments. Segment liabilities comprise bank borrowings and operating liabilities.

Inter-segment revenue eliminated on consolidation represents inter-company rental charges on a property owned by the Group. Inter-segment transactions are charged in accordance with the relevant tenancy agreements.

### b) Geographical Segments

The Group's operations are located in Hong Kong and the PRC. The Group's trading of automotive products are carried out in Hong Kong and the PRC. Property investment is located in Hong Kong.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of assets.

| | **Hong Kong** | | **The PRC** | | **Group** | |
|---|---|---|---|---|---|---|
| | **2005** | 2004 | **2005** | 2004 | **2005** | 2004 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Turnover | **3,528** | 200 | **960** | 2,040 | **4,488** | 2,240 |
| Segment assets | | | | | | |
| (2004: as restated) | **17,244** | 14,233 | **–** | 990 | **17,244** | 15,223 |
| Capital expenditure | **–** | – | **–** | – | **–** | – |

# Notes to the Financial Statements

For the year ended 31 December 2005

## 30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

a) Name and relationship with related parties

| Name | Relationship |
| --- | --- |
| Winsley Investment Limited ("Winsley") | The ultimate holding company |
| Madam Lam Mo Kuen, Anna ("Madam Lam") | Shareholder of Victory Motors Centre Limited, a subsidiary of the Company |
| Eternal Victory Enterprises Inc. ("EVEI") | A trustee of a unit trust, the units of which are held by a discretionary trust established for the family members of Mr. Chan Chun Choi, the Director. Mr. Chan holds all the issued shares of EVEI. |

b) Pursuant to the Subscription Agreement entered into between Winsley and the Company on 20 September 2005, Winsley agreed to subscribe for 215,000,000 shares of the Company at HK$0.035 each. The consideration of HK$7,525,000 was satisfied by cash.

After the completion of the transaction, Winsley holds 33.33% of the entire issued share capital of the Company.

c) At the balance sheet date, the outstanding balance due to Madam Lam amounted to HK$2,197,000 (2004: HK$2,197,000). The amount is unsecured, interest-free and repayable on demand.

d) Movements of non-trade balances with related parties

| | **2005** **HK$'000** | 2004 HK$'000 |
| --- | --- | --- |
| *The ultimate holding company* | | |
| Beginning of the year | **–** | 7,647 |
| Cash receipts | **–** | (7,647) |
| End of the year | **–** | – |
| *Madam Lam* | | |
| Beginning of the year and end of the year | **2,197** | 2,197 |

## 30. RELATED PARTY TRANSACTIONS (Continued)

e) Key management personnel remuneration of the Group

Key management personnel of the Group in 2005 and 2004 included all Directors of the Company and details of their emoluments are also disclosed in the "Corporate Governance Report".

| | **2005** | 2004 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries and other short-term employee benefits | **1,226** | 898 |
| Post-employment benefits | **12** | 12 |
| | **1,238** | 910 |

## 31. RETIREMENT SCHEME

The Group operates a MPF scheme under the Hong Kong MPF Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement scheme administered by an independent trustee. Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5 per cent of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the scheme vest immediately.

During the year ended 31 December 2005, the gross aggregate amount of employer's contribution made by the Group to the MPF scheme was approximately HK$48,000 (2004: HK$48,000). As at 31 December 2005 and 2004, there was no forfeited contribution available to reduce future contribution.

## 32. POST BALANCE SHEET EVENT

There is no any material post balance event before the despatch of the 2005 Annual Report.

## 33. COMMITMENTS

The Group had no commitments outstanding at 31 December 2005.

# Notes to the Financial Statements

For the year ended 31 December 2005

## 34. SIGNIFICANT ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

### Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

The Group's property comprises a portion that is held to earn rentals and another portion that is held for use in the supply of services or for administrative purposes. If these portions could be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the supply of services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as investment property.

The Directors consider that only an insignificant portion of the Group's property was leased out which could rarely be sold separately. Accordingly, the property is classified as leasehold building.

## 35. SIGNIFICANT ACCOUNTING ESTIMATES

The key source of estimation uncertainty at the balance sheet date that have a risk of causing a material adjustment to the carrying amounts of the assets are discussed below.

### Depreciation of fixed assets

Fixed assets are depreciated on a straight-line basis over their estimated useful lives, after taking into account of their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful lives of the fixed assets and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year the estimate is changed and the future period.

## 36. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 6, Exploration for evaluation of mineral resources | 1 January 2006 |
| HK(IFRIC) 4, Determining whether an arrangement contains a lease | 1 January 2006 |
| HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds | 1 January 2006 |
| HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment | 1 December 2005 |
| Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures | 1 January 2006 |
| Amendments to HKAS 39, Financial instruments: Recognition and measurement: | |
| – Cash flow hedge accounting of forecast intragroup transactions | 1 January 2006 |
| – The fair value option | 1 January 2006 |
| – Financial guarantee contracts | 1 January 2006 |
| Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to: | |
| – HKAS 1, Presentation of financial statements | 1 January 2006 |
| – HKAS 27, Consolidated and separate financial statements | 1 January 2006 |
| – HKFRS 3, Business combinations | 1 January 2006 |
| HKFRS 7, Financial instruments: disclosures | 1 January 2007 |
| Amendment to HKAS 1, Presentation of financial statements: capital disclosures | 1 January 2007 |

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Company's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. The adoption of such standards and interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

## 37. COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the change in accounting policies. Further details are disclosed in note 3.

## 38. APPROVAL OF THE FINANCIAL STATEMENTS

The audited financial statements were approved by the Board on 7 April 2006.