1. GENERAL INFORMATION

Compass Pacific Holdings Limited (the "Company") is an exempted company with limited liability incorporated and domiciled in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and, its principal place of business is Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

At 1 January 2005, the principal activities of the Company and its subsidiaries (the "Group") were operation of indoor game centres, manufacture and sale of automobile axles in the People's Republic of China (the "PRC").

On 1 August 2005, the Group completed the acquisition of 100% common stock in American Phoenix Group, Inc. ("APG"), a company incorporated under the laws of the State of California, the United States of America (the "USA") with limited liability. The principal activities of the subsidiaries of APG are the dealership of motor vehicles and spare parts, operating auto malls and property development in the PRC. These activities then became the Group's principal activities after the acquisition of APG.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements for the year ended 31 December 2005 were approved by the board of directors on 25 April 2006.

2. ADOPTION OF NEW OR REVISED HKFRS

From 1 January 2005, the Group has adopted for the first time the new or revised standards and interpretations of HKFRS, which are relevant to its operations. These include the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
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

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

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 28	Investments in Associates
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 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31 December 2004.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.1 Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to equity holders of the Company is now presented as an allocation of the net result of the year.

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

2.2 Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies:

Goodwill

Goodwill arising on acquisition on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1 January 2005 and the accumulated amortisation at 31 December 2004 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash generating units.

2.3 Adoption of HKFRS 2

Prior to the adoption of HKFRS 2 on 1 January 2005, the Group did not recognise the financial effect of share options until they were exercised.

The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Group, determined at the date of grant of the share options, over the vesting period with a corresponding credit to equity, unless the transaction is cash settled share-based payment.

The effects of adoption of HKFRS 2 for the year ended 31 December 2005 are increase in the Group's loss by HK$7,576,000 and increase in the Group's equity by the same amount. The adoption of HKFRS 2 has no impact on the financial statements for prior years.

2.4 Other standards adopted

The adoption of other new or revised standards or interpretations did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2. ADOPTION OF NEW OR REVISED HKFRS *(Continued)*

2.5 New standards or interpretations that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of such standards and interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments – Disclosures[1]
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease[2]

[1] Effective for annual periods beginning on or after 1 January 2007

[2] Effective for annual periods beginning on or after 1 January 2006

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain properties. The measurement bases are fully described in the accounting policies below.

The financial statements have been prepared on a going concern basis, notwithstanding that the Group had net current liabilities of HK$74,630,000 and certain legal proceedings as set out in note 42 at 31 December 2005. In the opinion of the directors, the Group will have sufficient resources to satisfy its future working capital and other financing requirements, after taking into consideration an undertaking made by the substantial shareholder to provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern and to meet its liabilities and obligations as and when they fall due.

Should the Group be unable to continue as a going concern, adjustments would have to be made to restate the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

3.3 Subsidiaries

Subsidiaries are entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries *(Continued)*

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is presented separately in the consolidated balance sheet. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. Investment in associates is initially recognised at cost and subsequently accounted for using the equity method. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) or fair value adjustment attributable to the share in the associate identified on acquisition.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.5 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all separate financial statements of subsidiaries, originally presented in a currency different from the Group's presentation currency, have been converted into Hong Kong dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rates at the balance sheet date. Income and expenses have been converted into the Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the translation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong dollars at the closing rates.

3.6 Income and expenses recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods are recognised upon transfer of risk and rewards of ownership to the customer and collectability of the related receivables is reasonably assured.

Provision of services is recognised in the accounting period in which the services are rendered.

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

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

Operating expenses are recognised in the income statement upon utilisation of the services.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

3.8 Goodwill

Goodwill arising on acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the fair value of the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary/associate at the date of acquisition. Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.9 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Buildings held under capital leasing agreements are depreciated over their expected useful lives or over the term of lease, if shorter.

Depreciation on other assets is provided to write off the cost over their estimated useful lives, using the straight-line method, at the following rates per annum:

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%
Plant and machinery	10% to 20%
Motor vehicles	10% to 25%

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

The gain or loss arising on disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.10 Investment property

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the profit or loss for the period in which they arise.

3.11 Impairment

Goodwill, property, plant and equipment, land use rights, financial assets and interests in subsidiaries and associates are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.12 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.

Land use rights are up-front payments to acquire the land use rights. The payments are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term.

3.13 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value are recognised in income statement.

Loans and receivables are provided against when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

Long term investment

Investments in equity securities as at 31 December 2004 were stated in the balance sheet at cost less any provisions for impairment losses. Provisions were made when the fair value of such equity securities had declined below the carrying amounts, unless there was evidence that the decline was temporary. The amount of reduction was recognised as an expense in the income statement.

Provision against the carrying value of equity securities were written back to income when the circumstances and events that led to the write-downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

3.14 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expenses.

Completed properties for sale at the year end are valued at the lower of cost and net realisable value. Cost is determined by apportionment of the total land and development costs attributable to unsold properties. Net realisable value is determined by reference to directors' estimates based on prevailing market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.15 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

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

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.16 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.17 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.18 Retirement benefit costs and short term employee benefits

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution Mandatory Provident Fund scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its eligible employees. Contributions are made based on a percentage of the employees' basis salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

According to the relevant rules and regulations in the PRC, the subsidiaries of the Company operating in the PRC are required to participate in the state-sponsored retirement plan (the "PRC RB Plan") operated by the respective local municipal governments in the PRC. These PRC subsidiaries are required to contribute a certain percentage of the basic salaries of their employees to the PRC RB Plan ("Employer contributions"). The PRC RB Plan is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the Employer contributions. Contributions under the PRC RB Plan are charged to the consolidated income statement as they become payable in accordance with the rules of the PRC RB Plan.

Short-term employee benefits

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.

3.19 Share-based employee compensation

All share-based payment arrangements granted after 7 November 2002 and had not vested on 1 January 2005 are recognised in the financial statements. The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.19 Share-based employee compensation *(Continued)*

All share-based compensation is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity compensation reserve. If vesting periods or other vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of share options expected to vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised, if there is any indication that the number of share options expected to vest differs from previous estimates. No adjustment to expense recognised in prior periods is made if fewer share options ultimately are exercised than originally estimated.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will continue to be held in share option reserve.

3.20 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, trade and other payables. They are included in balance sheet line items as borrowings under current or non-current liabilities or trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Group has a present obligation (legal or constructive) 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 can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.22 Related parties

A party is considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Company/Group; (ii) has an interest in the Company/Group that gives it significant influence over the Company/Group; or (iii) has joint control over the Company/Group;

(b) the party is an associate of the Company/Group;

(c) the party is a joint venture in which the Company/Group is a venturer;

(d) the party is a member of the key management personnel of the Company/Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, joint controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of employees of the Company/Group, or of any entity that is related party of the Company/Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.23 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.

In respect of business segment reporting, unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

Impairment of property, plant and equipment and inventories

The Group assesses impairment at each balance sheet date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the balance sheet dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

Impairment of receivables

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than the estimated.

5. REVENUE

Revenue, which is also the Group's turnover, represents total invoiced value of goods supplied and services rendered. Revenue recognised during the year is as follows:

	2005	2004
	HK$'000	*HK$'000*
Sales and repair of motor vehicles	**288,878**	–
Sales of properties held for sale	**26,161**	–
Revenues from games, rides and other amusement facilities	**1,046**	1,659
Sales of automobile axles	**–**	5,099
	316,085	6,758

6. SEGMENT INFORMATION

Primary reporting format – business segments

The Group is organised into five main business segments, namely sale and repair of motor vehicles, sale of property, operation of indoor game centres, manufacture and sale of automobile axles and investment holding and others.

	2005					
	Sale and repair of motor vehicles	Sale of property	Operation of indoor game centres	Manufacture and sale of automobile axles	Investment holdings and others	Group
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue						
Sales to external customers	288,878	26,161	1,046	–	–	316,085
Segment results	(168,032)	(16,165)	(341)	(1,051)	(36,199)	(221,788)
Unallocated expenses						
Share of results of associates						(6,235)
Loss before income tax						(228,023)
Income tax credit						3,524
Loss for the year						(224,499)
Segment assets	255,671	67,432	495	14,521	19,782	357,901
Associates	–	–	–	–	7,680	7,680
Total assets	255,671	67,432	495	14,521	27,462	365,581
Segment liabilities	304,895	37,867	3,652	366	11,476	358,256
Capital expenditure	87,808	1,307	–	–	660	89,775
Depreciation	3,200	216	129	659	2,704	6,908
Impairment of property, plant and equipment	43,764	–	–	142	40	43,946
Impairment of goodwill	103,608	–	–	–	–	103,608
Share option expense	–	–	–	–	7,576	7,576
Impairment of receivables	5,743	1,789	–	–	1,130	8,662

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2004					
	Sale and repair of motor vehicles HK$'000	Sale of property HK$'000	Operation of indoor game centres HK$'000	Manufacture and sale of automobile axles HK$'000	Investment holding and others HK$'000	Group HK$'000
Revenue						
Sales to external customers	–	–	1,659	5,099	–	6,758
Segment results	–	–	(1,405)	(8,176)	(34,776)	(44,357)
Loss before income tax						(44,357)
Income tax expense						–
Loss for the year						(44,357)
Segment assets	–	–	951	15,150	116,923	133,024
Segment liabilities	–	–	3,694	339	10,475	14,508
Capital expenditure	–	–	45	–	2,861	2,906
Depreciation	–	–	590	1,021	2,486	4,097
Impairment of property, plant and equipment	–	–	368	1,138	–	1,506
Loss on write off of property, plant and equipment	–	–	–	5,644	–	5,644
Impariment of receivables	–	–	–	–	354	354

6. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The Group's turnover is wholly derived in the PRC:

The following is an analysis of the carrying amount of segment assets and capital expenditures analysed by the geographical area in which the assets are located:

	Segment assets		Capital expenditures	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**9,994**	18,050	**607**	2,796
PRC, other than Hong Kong	**337,911**	16,101	**89,115**	45
USA	**9,996**	98,873	**53**	65
	357,901	133,024	**89,775**	2,906
Associates (PRC)	**7,680**	–	**–**	–
	365,581	133,024	**89,775**	2,906

7. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Other revenue:		
Bank interest income	**412**	568
Other interest income	**794**	983
Gain on sale of freehold land held for resale	**165**	–
Miscellaneous	**1,964**	732
	3,335	2,283

8. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest charges on:		
Bank loans and overdrafts wholly repayable within five years	**1,775**	–
Other loans wholly repayable within five years	**703**	–
	2,478	–

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging and crediting:

	2005	2004
	HK$'000	*HK$'000*
Auditors' remuneration	**850**	340
Depreciation of property, plant and equipment	**6,908**	4,097
Amortisation of land use rights	**276**	–
Impairment of receivables	**8,662**	354
Loss on write off of property, plant and equipment	**–**	5,644
Loss on disposal of property, plant and euqipment	**140**	–
Cost of inventories recognised as expenses	**318,208**	5,121
Impairment of inventories	**1,853**	–
Operating lease charges in respect of land and buildings	**5,551**	2,149
and crediting:		
Gain on disposal of property, plant and equipment	**–**	15

10. INCOME TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the year in Hong Kong (2004: Nil). Tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2005 HK$'000	2004 HK$'000
Current tax		
Hong Kong tax for the year	–	–
Overseas tax for the year	1,866	–
	1,866	–
Deferred tax	(5,390)	–
Income tax credit	(3,524)	–

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

	2005 HK$'000	2004 HK$'000
Loss before income tax	(228,023)	(44,357)
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	(70,958)	(11,610)
Tax effect of non-deductible expenses	52,849	3,167
Tax effect of non-taxable revenue	(7,334)	(8)
Tax losses not recognised as deferred tax asset	21,990	8,256
Tax effect of prior year's tax losses utilised this year	(321)	(13)
Other temporary differences not recognised	250	208
Income tax credit	(3,524)	–

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 is not material.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss attributable to the equity holders of the Company for the year of HK$218,223,000 (2004: HK$40,915,000), a loss of HK$199,782,000 (2004: HK$17,946,000) has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil) and the Company did not pay any interim dividend during the year.

13. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of HK$218,223,000 (2004: HK$40,915,000) and on the weighted average of 2,125,492,675 (2004: 1,895,451,000) ordinary shares in issue during the year.

Diluted loss per share for the years ended 31 December 2005 and 2004 was not presented because the impact of the exercise of the share options was anti-dilutive.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 ***HK$'000***	2004 *HK$'000*
Wages and salaries	**24,767**	22,701
Share options granted to directors and employees	**7,576**	–
Pension costs – defined contribution plans	**900**	286
Other benefits	**1,846**	–
	35,089	22,987

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

	Fees *HK$'000*	**Salaries, allowances and benefits in kind** *HK$'000*	**Contribution to defined contribution plan** *HK$'000*	**Total** *HK$'000*
2005				
Executive directors				
Mr. Yung Yeung	–	3,900	–	3,900
Mr. Chunhua Huang	–	1,719	8	1,727
Mr. Jun Li	–	1,872	12	1,884
Mr. Wing Tak Law, Jack	–	1,574	12	1,586
Mr. Yuwen Sun	–	1,300	–	1,300
Mrs. Chizuko Kubo	–	–	–	–
Independent non-executive directors				
Mr. Jian Wang	–	–	–	–
Mr. Bangjie He	–	–	–	–
Mr. Ho Yip Lee	80	–	–	80
	80	10,365	32	10,477

Subsequent to the balance sheet date, on 21 April 2006, Mrs. Chizuko Kubo became a non-executive director of the Company.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS *(Continued)*

	Fees	Salaries, allowances and benefits in kind	Contribution to defined contribution plan	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2004				
Executive directors				
Mr. Yung Yeung	156	4,674	–	4,830
Mr. Chunhua Huang	78	2,276	12	2,366
Mr. Jun Li	78	2,246	12	2,336
Mr. Wing Tak Law, Jack	20	403	–	423
Mr. Yuwen Sun	78	1,558	–	1,636
Mrs. Chizuko Kubo	78	–	–	78
Independent non-executive directors				
Mr. Jian Wang	78	–	–	78
Mr. Bangjie He	78	–	–	78
Mr. Ho Yip Lee	20	–	–	20
	664	11,157	24	11,845

During the year, four directors waived emoluments of HK$1,924,000 (2004: Nil).

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included five (2004: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining one individual for the year ended 31 December 2004 are as follows:

	2005	2004
	HK$'000	HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	–	935
Contribution to defined contribution plan	–	–
	–	935

The emoluments fell within the following bands:

	Number of individuals	
	2005	2004
Emolument bands		
HK$Nil – HK$1,000,000	–	1

16. PROPERTY, PLANT AND EQUIPMENT

Group

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

	Investment property HK$'000	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements, fixture and fittings HK$'000	Furniture and equipment HK$'000	Game equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2004									
Cost or valuation	1,620	7,567	–	16,430	3,621	58,337	8,923	11,044	107,542
Accumulated depreciation	–	(1,734)	–	(15,015)	(1,810)	(57,692)	(2,648)	(3,920)	(82,819)
Net book value	1,620	5,833	–	1,415	1,811	645	6,275	7,124	24,723
Year ended 31 December 2004									
Opening net book value	1,620	5,833	–	1,415	1,811	645	6,275	7,124	24,723
Additions	–	–	–	96	72	–	–	2,738	2,906
Disposals	(1,620)	–	–	–	–	–	–	(513)	(2,133)
Depreciation	–	(189)	–	(553)	(328)	(328)	(777)	(1,922)	(4,097)
Write off	–	(5,644)	–	–	–	–	–	–	(5,644)
Impairment	–	–	–	–	(5)	(161)	(1,138)	(202)	(1,506)
Closing net book value	–	–	–	958	1,550	156	4,360	7,225	14,249
At 31 December 2004									
Cost	–	–	–	16,526	3,693	58,337	8,923	12,999	100,478
Accumulated depreciation and impairment	–	–	–	(15,568)	(2,143)	(58,181)	(4,563)	(5,774)	(86,229)
Net book value	–	–	–	958	1,550	156	4,360	7,225	14,249
Year ended 31 December 2005									
Opening net book value	–	–	–	958	1,550	156	4,360	7,225	14,249
Exchange differences	–	–	–	12	–	4	116	9	141
Acquisition of subsidiaries	–	54,948	6,095	826	3,473	–	4,876	7,844	78,062
Additions	–	4,081	3,605	188	711	–	212	2,916	11,713
Transfer in/(out)	–	9,180	(9,700)	222	295	–	3	–	–
Disposals	–	–	–	(46)	(28)	(3)	–	(953)	(1,030)
Depreciation	–	(1,401)	–	(437)	(783)	(116)	(862)	(3,309)	(6,908)
Impairment	–	(40,940)	–	(40)	(704)	–	(1,526)	(736)	(43,946)
Closing net book value	–	25,868	–	1,683	4,514	41	7,179	12,996	52,281
At 31 December 2005									
Cost	–	68,209	–	16,819	7,144	59,874	12,869	22,121	187,036
Accumulated depreciation and impairment	–	(42,341)	–	(15,136)	(2,630)	(59,833)	(5,690)	(9,125)	(134,755)
Net book value	**–**	**25,868**	**–**	**1,683**	**4,514**	**41**	**7,179**	**12,996**	**52,281**

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

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

Included in buildings, there were certain properties held by the Group the ownership of which are as follows:

i. There are no title ownership certificates for certain buildings with net book value of approximately HK$6,043,000 as at 31 December 2005 held by Shanghai Yitong Automobile Sales Co., Ltd., ("Shanghai Yitong Sales"), a subsidiary of the Company. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所) ("the Beijing Lawyer"), Shanghai Yitong Sales is in the course of applying for the real estate ownership certificate ("Real Estate Certificate"). As Shanghai Yitong Sales has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the directors considered that there are no obstacle to prevent Shanghai Yitong Sales to obtain the said real estate ownership certificate. Accordingly, the directors consider that it is appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings is necessary.

ii. There are no title ownership certificates for certain buildings with net book value of approximately HK$3,119,000 as at 31 December 2005 held by Shanghai Volkswagen Ningbo Sales & Service Co. Ltd. ("Shanghai Ningbo"), a subsidiary of the Company, which was on the land leased with a term of 17 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement do not contravene the PRC Laws and regulations and thus the lease agreement is legal, valid and binding on the relevant parties. At present, Real Estate Certificate is still under application. As the landlord has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there is no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties is vested with the landlord, the directors considered that Shanghai Ningbo has the right to use the properties during the lease period under the lease agreement, accordingly, it is appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

iii. There are certain buildings with net book value of approximately HK$69,000 as at 31 December 2005 constructed by Shanghai Jiaoyun Shengfei Automobile Sales and Services Co. Ltd. ("Shanghai Shengfei"), a subsidiary of the Group, which was on the land leased with a term of 15 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement do not contravene the PRC Laws and regulations and thus the lease agreement is legal, valid and binding on the relevant parties. At present, Real Estate Certificate is still under application. As the landlord has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there is no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties is vested with the landlord, the directors considered that Shanghai Shengfei has the right to use the properties during the lease period under the lease agreement, accordingly, it is appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

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

iv There are certain buildings with net book value of approximately HK$8,751,000 as at 31 December 2005 constructed by Ningbo Shengfei Automobile Sales and Services Co. Ltd. ("Ningbo Shengfei"), a subsidiary of the Group, which was on the land leased with a term of 20 years. According to the Beijing Lawyer, the terms and conditions of the lease agreement do not contravene the PRC Laws and regulations and thus the lease agreement is legal, valid and binding on the relevant parties. At present, Real Estate Certificate is still under application. As the landlord has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, the Beijing Lawyer considered that there is no obstacle for obtaining the Real Estate Certificate. Notwithstanding the legal owner of the properties is vested with the landlord, the directors considered that Ningbo Shengfei has the right to use the properties during the lease period under the lease agreement, accordingly, it is appropriate to recognise the buildings in the financial statements and depreciate the buildings according to the lease term.

v. There are no title ownership certificates for certain buildings with net book value of approximately HK$3,116,000 as at 31 December 2005 held by Shanghai Volkswagen Taizhou Sales & Service Co., Ltd., ("Shanghai Taizhou"), a subsidiary of the Group. According to a PRC legal opinion issued by the Beijing Lawyer, Shanghai Taizhou is in the course of applying for the Real Estate Certificate. As Shanghai Taizhou Sales has obtained the land use right certificate for the land, the buildings were legally constructed and all the fees related to the application of the Real Estate Certificate were fully paid, based on the legal opinion issued by the Beijing Lawyer, the directors considered that there are no obstacle to prevent Shanghai Taizhou to obtain the said real estate ownership certificate. Accordingly, the directors consider that it is appropriate to recognise the buildings in the financial statements and no provision or write off of the buildings is necessary.

vi. There are certain buildings of HK$40,940,000 (before impairment) constructed by Guangzhou Shenfei Automobile Sales and Services Co. Ltd. ("Guangzhou Shenfei"), a subsidiary of the Group which was on the land leased with a term of 21 years and 10 months. According to the lease agreement, the ownership of the properties on the land belongs to the landlord. However, Guangzhou Shenfei has the right to use the properties during the lease period in accordance with the lease agreement. According to the legal opinion by the Beijing Lawyer, the landlord has the land use right to lease the land and the terms and conditions of the lease agreement do not contravene the PRC laws and legislations, and the landlord is in the course of applying for the real estate ownership certificates for the buildings. The Beijing Lawyer consider that there is no obstacle for obtaining the real estate ownership certificate, accordingly, the directors considered that it is appropriate to recognise the buildings in the financial statements. As at 31 December 2005, the carrying amount of these buildings was fully impaired because of the significant loss incurred by Guangzhou Shenfei.

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

Company

	Leasehold improvements *HK$'000*	**Furniture and equipment** *HK$'000*	**Fixtures and fittings** *HK$'000*	**Total** *HK$'000*
Year ended 31 December 2005				
Additions	44	29	2	75
Depreciation	(4)	(2)	(1)	(7)
Impairment	(40)	–	–	(40)
Closing net book amount	–	27	1	28
At 31 December 2005				
Cost	44	29	2	75
Accumulated depreciation and impairment	(44)	(2)	(1)	(47)
Net book amount	–	27	1	28

17. LAND USE RIGHTS – GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2005 **HK$'000**	2004 *HK$'000*
Outside Hong Kong, held on Leases of between 10 to 50 years	**26,179**	–

	2005 **HK$'000**	2004 *HK$'000*
Opening net carrying amount	**–**	–
Acquisition of subsidiaries	**26,455**	–
Amortisation of prepaid operating lease payments	**(276)**	–
Closing net carrying amount	**26,179**	–

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2005 *HK$'000*	2004 *HK$'000*
Investments at cost		
Unlisted shares	**230,088**	227,220
Less: Impairment	**(221,848)**	(94,802)
	8,240	132,418

	2005 *HK$'000*	2004 *HK$'000*
Amounts due from subsidiaries	**198,568**	147,811
Less: Impairment	**(192,733)**	(141,531)
	5,835	6,280
Less: Portion due within one year included under current assets	**(5,835)**	–
Non-current portion included in interests in subsidiaries under non-current assets	**–**	6,280

	2005 *HK$'000*	2004 *HK$'000*
Amounts due to subsidiaries	**112**	822

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. Amounts due from subsidiaries at 31 December 2004 were 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 31 December 2005.

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Particulars of the Company's subsidiaries as at 31 December 2005 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital/registered capital held by the Company %	Principal activities and place of operations
American Compass Inc.	USA, limited liability company	Ordinary US$17,000,000	100*	Investment holding, USA
Bluebell Fields Limited	The British Virgin Islands ("BVI"), limited liability company	Ordinary US$1	100*	Inactive
Bright Skies Limited	BVI, limited liability company	Ordinary US$1	100*	Investment holding, Hong Kong
Compass Pacific Capital Limited (圓通金融有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100*	Investment holding, Hong Kong
Dawes Investments Limited	BVI, limited liability company	Ordinary US$1	100	Inactive
Hemsby Investments Limited	BVI, limited liability company	Ordinary US$200	100*	Investment holding, Hong Kong
Kristal Profits Limited	BVI, limited liability company	Ordinary US$1	100	Investment holding, Hong Kong
Liberty Capital Limited (立寶金融有限公司)	Hong Kong, limited liability company	Ordinary HK$1	100	Inactive
Liberty Investment Holdings Limited (立寶投資控股有限公司)	Hong Kong, limited liability company	Ordinary HK$10,000	100	Inactive
Nara Profits Limited	BVI, limited liability company	Ordinary US$1	100	Investment holding, Hong Kong
Upward Trend Profits Limited	BVI, limited liability company	Ordinary US$1	100	Investment holding, Hong Kong
Whimsy International Trading Limited	BVI, limited liability company	Ordinary US$1	100	Inactive

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital/registered capital held by the Company %	Principal activities and place of operations
Yaohan Whimsy International Limited	BVI, limited liability company	Ordinary US$1	100	Inactive
Asian Rose Holdings Limited	Hong Kong, limited liability company	Ordinary HK$2	100	Inactive
Global Gold Trading Limited	Hong Kong, limited liability company	Ordinary HK$2	100	Inactive
Parkwell (Hong Kong) Limited (百宏(香港)有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100*	Leasing, Hong Kong
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong, limited liability company	Ordinary HK$2	100	Investment holding, Hong Kong
Yaohan Whimsy Company Limited	Hong Kong, limited liability company	Ordinary HK$1,000 Non-voting deferred HK$1,000[4]	100	Investment holding, Hong Kong
Chengdu Happy World Company Limited (成都歡樂天地有限公司[1])	Chengdu, PRC, limited liability company	RMB10,000,000	97	Ceased operations
Henan Whimsy Amusement Company, Limited (河南歡樂天地兒童遊樂有限公司[3])	Henan, PRC, limited liability company	US$2,000,000	100	Operation of indoor entertainment centre, PRC
Shanghai Whimsy Amusement Company, Limited (上海歡樂天地兒童遊樂有限公司[1])	Shanghai, PRC, limited liability company	US$3,000,000	90	Ceased operations
Shenyang Liao Hua Automobile Axles Company, Limited (沈陽遼華汽車車橋有限公司[2])	Shenyang, PRC, limited liability company	RMB30,000,000	51	Manufacture of automobile axles, PRC
Suzhou Whimsy Family Electronic Recreation Company, Limited (蘇州運時家庭電子娛樂有限公司[1])	Suzhou, PRC, limited liability company	US$1,050,000	95	Ceased operations

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital/registered capital held by the Company %	Principal activities and place of operations
Wuxi Whimsy Amusement Co., Limited (無錫歡樂天地遊樂有限公司[1])	Wuxi, PRC, limited liability company	US$2,720,000	95	Ceased operations
Whimsy Japan Company Limited	Japan, limited liability company	Ordinary JPY10,000,000	100	Inactive
Whimsy USA, Inc.	USA, limited liability company	Ordinary US$10	100*	Inactive
American Phoenix Group, Inc.	USA, limited liability company	Class A Ordinary US$16,792,529	100	Investment holding, USA
Star Western Holdings, LLC	USA, limited liability company	Ordinary US$8,750,000	100	Investment holding, USA
Ningbo Meili Asset Management Company, Limited[2] (寧波美立資產管理有限公司)	Ningbo, PRC, limited liability company	Ordinary US$8,650,000	100	Investment holding, PRC
Ningbo Meilide Consulting Company, Limited[2] (寧波美立德諮詢有限公司)	Ningbo, PRC, limited liability company	US$750,000	100	Investment holding, PRC
Ningbo Duty-free Zone Yafei Trading Company, Limited (寧波保稅區亞飛貿易有限公司)	Ningbo, PRC, limited liability company	RMB1,000,000	100	Investment holding, PRC
Ningbo Phoenix Automobile Distribution and Services Company, Limited ("Ningbo Phoenix") (寧波鳳凰汽車銷售服務有限公司)	Ningbo, PRC, limited liability company	RMB135,357,883	100	Investment holding and trading of motor vehicles, PRC
Shanghai Shengfei Automobile Sales and Services Company, Limited (上海聖飛汽車銷售服務有限公司)	Shanghai, PRC, limited liability company	RMB5,000,000	90	Trading of motor vehicles, PRC

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital/registered capital held by the Company %	Principal activities and place of operations
Shanghai Huanya Zhougin International Trade Company, Limited (上海環亞中進國際貿易有限公司)	Shanghai, PRC, limited liability company	RMB19,600,000	100	Trading of motor vehicles, PRC
Guangzhou Shenfei Automobile Sales and Services Company, Limited (廣州申飛汽車銷售服務有限公司)	Guangzhou, PRC, limited liability company	RMB29,990,000	63.32	Trading of motor vehicles, PRC
Guangdong Zhongda Automobile Maintenance Company, Limited (廣東眾大汽車維修有限公司)	Guangzhou, PRC, limited liability company	RMB2,000,000	56.99	Trading of motor vehicles and providing repair services, PRC
Guangzhou Shen Ao Automobile Sales and Services Company, Limited (廣州申奧汽車銷售服務有限公司)	Guangzhou, PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC
Guangdong Jiama Automobile Sales and Services Company, Limited (廣東佳馬汽車銷售服務有限公司)	Guangzhou, PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC
Guangzhou Shenfe Tongli Automobile Sales and Services Company, Limited (廣州市申飛通立汽車銷售服務有限公司)	Guangzhou, PRC, limited liability company	RMB5,000,000	61.74%	Trading of motor vehicles, PRC
Shanghai Jiaoyun Shengfei Automobile Sales and Services Company, Limited (上海交運聖飛汽車銷售服務有限公司)	Shanghai, PRC, limited liability company	RMB12,000,000	51%	Trading of motor vehicles, PRC
Ningbo Shengfei Automobile Sales and Services Co., Limited (寧波聖菲汽車銷售服務有限公司)	Ningbo, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles and providing repair and maintenance services, PRC
Shanghai Volkswagen Ningbo Sales and Services Company, Limtied (上海大眾汽車寧波銷售服務有限公司)	Ningbo, PRC, limited liability company	RMB2,000,000	51%	Trading of motor vehicles and providing repair services, PRC

18. INTERESTS IN SUBSIDIARIES – COMPANY *(Continued)*

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share capital/registered capital held by the Company %	Principal activities and place of operations
Shanghai Yitong Automobile Sales Company, Limited (上海怡通汽車銷售有限公司)	Shanghai, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles, PRC
Shanghai Yitong Automobile Services Company, Limited (上海怡通汽車服務有限公司)	Shanghai, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles and providing repair services, PRC
Shanghai Volkswagen Taizhou Sales & Services Company, Limited (上海大眾汽車台州銷售服務有限公司)	Linhai, PRC, limited liability company	RMB5,000,000	51%	Trading of motor vehicles and providing repair, PRC
Ningbo Huadu Real Estate Company, Limited ("Ningbo Huadu") (寧波華都房地產有限公司[5])	Ningbo, PRC, limited liability company	RMB24,680,000	50%	Property development, PRC
(Jinhua Huadu Property Co., Ltd.) ("Jinhua Huadu) (金華市華都置業有限公司[6])	Jinhua, PRC, limited liability company	RMB10,000,000	27.5%	Property development, PRC

* Shares held directly by the Company.

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

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

3 This subsidiary is a wholly foreign owned enterprise.

4 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.

5 The board of directors of Ningbo Huadu consists of 7 members of whom 4 members are nominated by Ningbo Phoenix, a 51% owned-subsidiary, therefore, the directors considered that it is appropriate to classify Ningbo Huadu as subsidiary of the Group.

6 Ningbo Huadu holds 55% interest in Jinghua Huadu, therefore, Jinhua Huadu is a subsidiary of the Group notwithstanding the effective interest is 27.5%.

19. INTEREST IN AN ASSOCIATE – GROUP

	2005 *HK$'000*	2004 *HK$'000*
Balance at 1 January 2005	–	–
Transfer from long term investment *(note 20)*	21,423	–
Share of results of APG	(6,235)	–
	15,188	–
Interest in APG on the date it became subsidiary	(15,188)	–
Acquisition of an associate during the year	7,680	–
Balance at 31 December 2005	7,680	–

The Group subscribed for a 6.5% interest in APG in March 2004 and pursuant to the capital reorganisation of APG in March 2005, the Group's interest in APG was increased to 23.82% during March 2005 and became an associate of the Group. On 1 August 2005, the Group further acquired all the remaining equity of APG by way of issuing 548,792,232 new shares of the Company and setting off against the loan to APG and the interest accrued thereon. APG became a 100% subsidiary of the Group from 1 August 2005.

Particulars of the associate at 31 December 2005 are as follows:

Name	Place of incorporation/ operation and kind of legal entity	Particulars of registered capital	Assets	Liabilities	Revenue	Profit	Percentage of issued share capital held by the Group	Principal activities
Jiaxing Shida Investment Company, Limited ("Jiaxing Shida") (嘉興市實達投資有限公司)	Jiaxing, PRC, limited liability company	RMB20,000,000	RMB20,002,688	RMB2,688	–	–	40%	Property development

Jiaxing Shida was established during the year ended 31 December 2005 and had not commenced business operations at 31 December 2005.

20. LONG TERM INVESTMENT/LOAN AND INTEREST RECEIVABLE FROM AN INVESTEE COMPANY – GROUP

	2005 HK$'000	2004 HK$'000
Unlisted investment in APG, at cost	–	21,423

	2005 HK$'000	2004 HK$'000
Loan receivable, secured	–	43,624
Interest receivables	–	603
	–	44,227

On 30 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 bore interest at 5% per annum and was originally scheduled to be fully repayable on 24 December 2004. The loan was secured by a share mortgage of 25% equity interest of a subsidiary of APG.

On 1 August 2005, APG became a 100% subsidiary of the Group and the loan together with interest accrued formed part of the consideration. Details please refer to note 19.

21. GOODWILL – GROUP

	2004
	HK$'000
At 1 January 2004	
Gross carrying amount	–
Accumulated impairment	–
Net carrying amount at 1 January 2004	–

	2005	2004
	HK$'000	*HK$'000*
Net carrying amount at 1 January	**–**	–
Additions	**103,608**	–
Impairment losses	**(103,608)**	–
Net carrying amount at 31 December	**–**	–
At 31 December		
Gross carrying amount	**103,608**	–
Accumulated impairment	**(103,608)**	–
	–	–

Subsequent to the annual impairment test for 2005, the carrying amount of goodwill is allocated to the following cash generating unit:

	HK$'000
Sale and repair of motor vehicles	–

The recoverable amounts for the cash generating unit given above were determined based on value-in-use estimation of the cash generating unit by the directors of the Company.

21. GOODWILL – GROUP *(Continued)*

The Company's directors' key assumptions are determined based on past performance and its expectations for future market development of the motor vehicles retail market in PRC.

The related goodwill impairment loss of HK$103,608,000 (2004: HK$ Nil) was included in the income statement and attributed to the Group's sale and repair of motor vehicles segment (see note 6).

In view of the bankruptcy of the manufacturer of MG Rover in England, and the heavy competition in the dealership of motor vehicle and the under performance of APG below the target goal, it is therefore appropriate to fully write off the goodwill generated from the acquisition of APG.

22. OTHER LOAN RECEIVABLES – GROUP

	2005 HK$'000	2004 HK$'000
Other loan receivables – unsecured	–	2,629
Less: Current portion due within one year included in other receivables under current assets	–	(370)
Non-current portion under non-current assets	–	2,259

The balance at 31 December 2004 included an unsecured loan made to a member of the senior management of the Group. The loan bore interest at one year LIBOR (subject to adjustment annually in October) and would be repayable by ten instalments in five years. During the year an impairment of these receivables of HK$841,000 was charged and the remaining balance was classified as prepayment, deposits and other receivables under current assets in accordance with the terms of the loans.

23. INVENTORIES – GROUP

	2005 HK$'000	2004 HK$'000
Motor vehicles and auto parts	**84,502**	–
Completed properties held for sale	**33,930**	–
Plush toys – at cost	**51**	48
Spare parts and other consumables – at cost	**277**	145
	118,760	193
Less: Impairment	**(1,975)**	(122)
	116,785	71

Completed properties held for sale included interest in land located in the PRC with lease terms of 40 years. As at 31 December 2005, the carrying values of the operating lease up-front payment amounted to HK$4,267,000 (2004: NIL).

24. LAND HELD FOR RESALE – GROUP

	2005 HK$'000	2004 HK$'000
Freehold land for resale outside Hong Kong, at cost	–	1,636

25. TRADE RECEIVABLES – GROUP

The aging analysis of the trade receivables (net of impairment) of the Group as at 31 December 2005 is as follows:

	2005 HK$'000	2004 HK$'000
0 – 30 days	5,174	–
31 – 60 days	366	–
61 – 90 days	69	–
91 – 180 days	837	–
Over 180 days	482	–
	6,928	–

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Deposits paid to suppliers	24,319	–	–	–
Sundry receivables	24,835	11,175	3,008	3,060
Other prepayments and deposits	11,074	10,573	314	428
	60,228	21,748	3,322	3,488
Less: Impairment	(8,475)	(6,428)	–	–
	51,753	15,320	3,322	3,488

27. AMOUNTS DUE FROM/(TO) RELATED PARTIES – GROUP

The balances represent amounts due from/to minority interest holders of the subsidiaries and related parties with minority interest holders of the subsidiaries. The balances are unsecured, interest free and have no fixed repayment terms.

28. PLEDGED DEPOSITS/CASH AND CASH EQUIVALENTS – GROUP

As at 31 December 2005, pledged deposits and cash and cash equivalents of the Group denominated in Chinese Renminbi ("RMB") amounted to approximately HK$80,770,000 (2004: NIL) and HK$14,960,000 (2004: HK$237,000) respectively. 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.

Bills payable amounted to HK$114,048,000 (2004: NIL) was secured by pledged deposits of HK$80,770,000 (2004: NIL).

29. TRADE PAYABLES – GROUP

The aging analysis of the trade payables of the Group as at 31 December 2005 is as follows:

	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**10,083**	33
31 – 60 days	**159**	–
61 – 90 days	**142**	–
91 – 180 days	**10,111**	668
Over 180 days	**1,666**	–
	22,161	701

30. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Deposits received from customer	**15,879**	–	–	–
Construction cost payables	**30,156**	–	–	–
Accrued staff costs	**5,073**	2,175	1,601	1,513
Other taxes, charges and import duties payable	**14,019**	4,632	4,600	4,600
Other payables and accruals	**59,381**	7,000	5,110	3,981
	124,508	13,807	11,311	10,094

31. PENSION AND OTHER POST RETIREMENT OBLIGATIONS – GROUP

Included in other payables were current obligations to various retirement benefits schemes (defined contribution plans) for Hong Kong and PRC employees.

	2005	2004
	HK$'000	*HK$'000*
Current obligations on:		
– pension – defined contribution plans	**797**	676

There were no forfeited contributions during the year.

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 schemes cost charged to the income statement represents contributions incurred by the Group. During the year ended 31 December 2005, the Group's contributions were approximately HK$900,000 (2004: HK$286,000). There was no forfeited contribution used to offset the Group's contribution during the relevant period (2004: Nil) and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

32. BORROWINGS – GROUP

	2005	2004
	HK$'000	*HK$'000*
Current		
Bank loans repayable within one year	**44,496**	–
Other loans repayable within one year	**5,685**	–
Total borrowings	**50,181**	–

Total borrowings include secured bank loans of HK$44,496,000 (2004: Nil) denominated in RMB. Bank loans are secured by certain inventories of the Group with carrying value of HK$7,144,000, the properties held by certain minority interest holders and employees of the Group and guarantees provided by subsidiaries of the Group and certain third parties. Bank loans are interest bearing at interest rates ranging from 5.6358% to 7.812% per annum.

Other loans include a loan of HK$3,116,000 from a director of a subsidiary of the Group. This loan is unsecured, interest free and has no fixed terms of repayment. The remaining other loan balance is interest bearing at 2.67% per annum and guaranteed by a third party.

32. BORROWINGS – GROUP *(Continued)*

The carrying amounts of short-term borrowings approximately their fair value.

The carrying amount of the borrowings are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
RMB	**46,896**	–
US dollar	**3,285**	–
Total borrowings	**50,181**	–

33. PROVISIONS – GROUP

	Legal claims
	HK$'000
Balance at 1 January 2005	–
Acquisition of subsidiaries *(note 41)*	17,414
Provision made during the year	609
Total borrowings	18,023

The amounts represent a provision for the estimated losses in connection with certain legal claims brought against the Group by certain customers.

Details of the background of the legal proceedings are disclosed in note 42(c).

34. DEFERRED TAX – GROUP

Deferred taxation is calculated on temporary differences under the liability method using the principal taxation rates prevailing in the countries in which the Group operates.

The movement on the deferred tax liabilities is as follows:

	2005	2004
	HK$'000	*HK$'000*
At 1 January	**–**	–
Acquisition of subsidiaries *(note 41)*	**9,998**	–
Deferred taxation credited to income statement	**(5,390)**	–
At 31 December	**4,608**	–

The deferred tax liabilities are arisen from the fair value adjustment on acquisition of subsidiaries during the year.

35. SHARE CAPITAL

	2005		2004	
	Number of shares	**Amount HK$'000**	Number of shares	Amount HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**3,000,000,000**	**300,000**	3,000,000,000	300,000
Issued and fully paid:				
At 1 January	**1,895,451,000**	189,545	1,895,451,000	189,545
Increase during the year	**548,792,232**	54,879	–	–
At 31 December	**2,444,243,232**	244,424	1,895,451,000	189,545

The Company issued and allotted 548,792,232 shares on 1 August 2005 to the shareholders of APG (the "Vendors") as part of the purchase consideration for 76.18% of APG's capital. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the shares issued at the date of acquisition amounted to HK$63,111,000 (HK$0.115 per share).

36. SHARE-BASED EMPLOYEE COMPENSATION

On 12 June 2003, the share option scheme adopted by the Company on 15 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 12 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.

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

The particulars of the share option scheme of the Company are as follows:

Name	At 1 January 2005	Granted during the year	Cancelled during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price per share HK$
	Number of share options						
Directors							
Mr. Yung Yeung	10,000,000	–	–	10,000,000	16 February 2000	16 February 2000 to 15 February 2010	0.690
	21,570,000	–	–	21,570,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	–	10,000,000	–	10,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Mr. Jun Li	5,400,000	–	–	5,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	13,540,000	–	–	13,540,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Mr. Chunhua Huang	5,400,000	–	–	5,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	13,540,000	–	–	13,540,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

	Number of share options						
Name	At 1 January 2005	Granted during the year	Cancelled during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price per share HK$
Mr. Yuwen Sun	18,940,000	–	–	18,940,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Ms. Chizuko Kubo	5,000,000	–	–	5,000,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Mr. Wing Tak Law	–	15,500,000	–	15,500,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Mr. Jian Wang	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
Mr. Ho Yip Lee	–	5,000,000	–	5,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
	93,390,000	55,500,000	–	148,890,000			

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Name	At 1 January 2005	Granted during the year	Cancelled during the year	At 31 December 2005	Date of grant of share options	Exercise period of share options	Exercise price per share HK$
	Number of share options						
Employees							
In aggregate	4,800,000	–	–	4,800,000	16 February 2000	16 February 2000 to 15 February 2010	0.690
	9,400,000	–	–	9,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	18,772,000	–	–	18,772,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	73,900,000	–	73,900,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
	32,972,000	73,900,000	–	106,872,000			
Other eligible persons							
In aggregate	–	60,000,000	–	60,000,000	9 August 2005	9 August 2005 to 8 August 2015	0.114
	–	60,000,000	–	60,000,000			
	126,362,000	189,400,000	–	315,762,000			

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Name	Number of share options At 1 January 2004	Granted during the year	Cancelled during the year	At 31 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	16 February 2000	16 February 2000 to 15 February 2010	0.690
	21,570,000	–	–	21,570,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
Mr. Jun Li	5,400,000	–	–	5,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	–	13,540,000	–	13,540,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
Mr. Chunhua Huang	5,400,000	–	–	5,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	–	13,540,000	–	13,540,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
Mr. Yuwen Sun	–	18,940,000	–	18,940,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
Ms. Chizuko Kubo	–	5,000,000	–	5,000,000	5 January 2004	26 January 2004 to 4 January 2014	0.160
	42,370,000	51,020,000	–	93,390,000			

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

Name	At 1 January 2004	Granted during the year	Cancelled during the year	At 31 December 2004	Date of grant of share options	Exercise period of share options	Exercise price per share HK$
	Number of share options						
Employees							
In aggregate	4,800,000	–	–	4,800,000	16 February 2000	16 February 2000 to 15 February 2010	0.690
	9,400,000	–	–	9,400,000	2 November 2000	2 November 2000 to 1 November 2010	0.382
	–	37,800,000	19,028,000	18,772,000	5 January 2004	26 January 2004 to 4 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	–	5 January 2004	26 January 2004 to 4 January 2014	0.160
	–	44,000,000	44,000,000	–			
	56,570,000	132,820,000	63,028,000	126,362,000			

As HKFRS 2 does not require full retrospective application of the new rules as described in note 2.3 and 3.19 above, not all of Group's share-based employee expenses have been recognised in accordance with the current accounting policies of the Group.

The fair value of the options granted during the year ended 31 December 2005 was determined using Binomial Option valuation model. Significant inputs into the model were as follows:

Share price	0.125
Exercise price	0.114
Expected volatility	157%
Expected option life (year)	10
Weighted average annual risk free interest rate	4.19%
Expected dividend yield	0%
Suboptimal exercise factor	1.5

The expected volatility represents the historical volatility of the price return of the ordinary shares of the Company.

36. SHARE-BASED EMPLOYEE COMPENSATION *(Continued)*

In total, HK$7,576,000 representing the fair value of the options granted at the date of grant of the options has been included in the consolidated income statement for 2005 (2004: Nil) which gave rise to an equity compensation reserve as at 31 December 2005. No liabilities were recognised due to equity-settled share-based payment transactions.

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2005		2004	
	Number	Weighted average exercise price *HK$*	Number	Weighted average exercise price *HK$*
Outstanding at 1 January	126,362,000	0.295	56,570,000	0.463
Granted	189,400,000	0.114	132,820,000	0.160
Cancelled	–	–	(63,028,000)	0.160
Outstanding at 31 December	315,762,000	0.187	126,362,000	0.295

37. RESERVES

The Group

	Share premium *HK$'000*	Translation reserve *HK$'000*	Equity compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 31 December 2005	**270,761**	**(2,256)**	**7,576**	**(561,536)**	**(285,455)**
At 31 December 2004	262,529	(2,304)	–	(343,313)	(83,088)

Details of movements in the above reserves are set out in the consolidated statement of changes in equity on page 29 to the financial statements.

37. RESERVES *(Continued)*

The Company

	Share premium HK$'000	Contributed surplus HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	262,529	94,601	–	(393,042)	(35,912)
Loss for the year	–	–	–	(17,946)	(17,946)
At 31 December 2004 and 1 January 2005	262,529	94,601	–	(410,988)	(53,858)
Issue of shares	8,232	–	–	–	8,232
Employee share based compensation	–	–	7,576	–	7,576
Loss for the year	–	–	–	(199,782)	(199,782)
At 31 December 2005	**270,761**	**94,601**	**7,576**	**(610,770)**	**(237,832)**

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 31 December 2005 (2004: Nil).

The employee compensation reserve was made in accordance to the adoption of HKFRS 2 (note 36).

38. RELATED PARTY TRANSACTIONS

During the year, the Group made an impairment provision of HK$5,655,000 (included in impairment of receivables of HK$8,662,000 (note 9)) in respect of certain amounts due from minority interest holders.

39. COMMITMENTS AND CONTINGENCY

(a) Research and development commitments

On 3 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$3,774,000 (2004: HK$3,592,000).

Capital commitments in respect of the above agreement outstanding as at 31 December 2005 not provided for in the financial statements of the Group and the Company are summarised as follows:

	The Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
Contracted for	**7,366**	7,366

(b) Capital commitments

As at 31 December 2005, the Group had the following commitment:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Contracted for	**–**	26

The Company had no capital commitment at 31 December 2005 (2004: Nil).

39. COMMITMENTS AND CONTINGENCY *(Continued)*

(c) Lease commitments

As at 31 December 2005, the total future minimum lease payments payable under non-cancellable operating leases of the Group are as follows:

	The Group			
	2005		2004	
	Land and buildings *HK$'000*	Other assets *HK$'000*	Land and buildings *HK$'000*	Other assets *HK$'000*
Within one year	8,301	225	1,866	–
After one year but within five years	14,969	112	3,102	–
Within one year	36,655	–	–	–
	59,925	337	4,968	–

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 at 31 December 2005 (2004: 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.

40. BANKING FACILITIES

	The Group	
	2005 *HK$'000*	2004 *HK$'000*
Other banking facilities	500	500

As at 31 December 2005, the Group had aggregate banking facilities of HK$500,000 (2004: HK$500,000), all of them remained unutilised. The facilities are secured by bank deposits of HK$700,000 (2004: HK$700,000).

41. BUSINESS COMBINATION

The Group completed its acquisition of 100% interest in the APG on 1 August 2005. Prior to that APG was an associate (note 19) and long term investment (note 20) of the Group. The acquired business contributed revenues of HK$315,039,000 and net loss of HK$184,197,000 to the Group for the period from 1 August 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group's revenue would have been HK$771,019,000 and loss for year would have been HK$284,736,000.

Details of the net assets acquired and goodwill are as follows:

	HK$'000
Amounts due from the associate to the Group	44,823
Direct costs relating to the acquisition	2,868
Fair value of shares issued	63,111
Total purchase consideration	110,802
Fair value of net assets acquired	(7,194)
Goodwill *(note 21)*	103,608

The fair value of the shares issued (note 35) was based on the published share price.

41. BUSINESS COMBINATION *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	78,062	89,788
Land use rights	26,455	24,278
Rental, utilities and other deposits	1,334	1,334
Inventories (including properties held for resale)	128,519	105,450
Trade receivables	9,293	34,914
Prepayments, deposits and other receivables	45,813	68,319
Amounts due from related parties	13,094	19,587
Tax recoverable	1,511	1,511
Pledged deposits	93,302	93,302
Cash and cash equivalents	20,674	20,674
Trade payables	(13,436)	(13,436)
Accruals and other payables	(99,644)	(99,644)
Amounts due to related parties	(12,657)	(12,657)
Borrowings	(72,820)	(72,820)
Bills payable	(127,133)	(127,133)
Provision for legal claims	(17,414)	–
Deferred tax liabilities	(9,998)	–
Net assets	64,955	133,467
Minority interests	(42,573)	
Interest in APG at the date it became a subsidiary (note 19)	(15,188)	
Net assets acquired	7,194	
Purchase consideration settled in cash		–
Cash and cash equivalents in subsidiary acquired		20,674
Cash inflow on acquisition		20,674

There were no acquisitions in the year ended 31 December 2004.

42. LEGAL PROCEEDINGS

(a) Legal proceedings against a subsidiary, Shanghai Whimsy Amusement Co., Limited ("Shanghai JV")

On 1 December 2003, the PRC joint venture partner of Shanghai JV ("Shanghai Partner"), commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK$454,000 (the "guarantee profits"). A provision had been made in the financial statements in the year ended 31 December 2004 in respect of such guarantee profits to the Shanghai Partner. According to the judgement handed down by the Shanghai No. 2 Intermediate People's Court ("Shanghai Court"), Shanghai JV was lost in this case. The Shanghai Court ordered the freezing of the bank accounts of Shanghai JV for the payment of the guarantee profits. Shanghai JV is now consulting its legal advisors to appeal this judgement. The directors estimated that the legal expenses to be incurred in this case is approximately HK$288,000. A provision had been made in the financial statements in respect of such legal expenses.

(b) Legal proceedings against a joint venture, Wuxi Whimsy Amusement Co. Limited ("Wuxi JV")

On 4 November 2004, the PRC joint venture partner of Wuxi JV ("Wuxi partner"), 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. During 2005, the Wuxi partner discontinued the legal proceedings.

(c) Legal proceedings against subsidiaries, Ningbo Phoenix and Guangzhou Shenfei

During 2005, Zhong Shi Television Purchasing Limited (中視電視購物有限公司) ("Zhong Shi" or the "plaintiff"), a customer of Ningbo Phoenix and Guangzhou Shengfei (collectively the "defendants"), commenced legal proceedings against the defendants in the Beijing No. 1 Intermediate People's Court (the "Beijing Court"). The plaintiff alleged that the defendants were in breach of their obligations under the Cooperation Agreement and the Sale Agreement which were entered into by the plaintiff and the defendants on 5 July 2004 (the "2004 Agreements"). According to the 2004 Agreements, the defendants would supply MG Rover motor vehicles to the plaintiff for three years. In the case of any significant event occurred, these 2004 Agreements should be terminated and the defendants should repurchase the unsold motor vehicles from the plaintiff and pay for any interests that should have been received from the funds used to purchase the obsolete motor vehicles. During May 2005, the manufacturer of MG Rover in England declared bankruptcy. The sales of MG Rover in the PRC were seriously affected. The plaintiff considered that this was a significant event and requested the defendants to terminate the 2004 Agreements and repurchase the unsold motor vehicles and pay for the interests in accordance with the 2004 Agreements. The defendants refused such request and the plaintiff commenced legal proceedings against the defendants and applied for the freezing of the defendants cash and other assets amounting to RMB13,370,000 and sought from the Beijing Court the order of the followings:

1. the termination of the 2004 Agreements;
2. the defendants to repurchase 24 Rover motor vehicles at the price of RMB10,320,000;
3. the defendants to compensate to the plaintiff the interest amounting to RMB3,050,000 arising from the funding of the 118 obsolete Rover motor vehicles; and
4. the defendants to be responsible for the court and legal expenses in relation to this claim.

42. LEGAL PROCEEDINGS *(Continued)*

Zhong Shi also commenced another legal proceedings against the defendants in the Beijing Court alleged that the defendants were in breach of their obligations under the Motor Vehicles Sales Agreement and Sales Services Agreement signed on 11 January 2005 (the "2005 Sales Agreements"). According to the 2005 Sales Agreement, Guangzhou Shenfei agreed to repurchase 94 Rover motor vehicles, the period of repurchase was between 11 January 2005 and 28 February 2005 (the "Repurchase"). The plaintiff and Guangzhou Shenfei also agreed that, if Guangzhou Shenfei could not repurchase all the 94 MG Rover motor vehicles within the said period, Guangzhou Shenfei would be liable for the penalty of RMB7,520,000 (the "Penalty"). On the same date, Ningbo Phoenix also signed a Guarantee Agreement (the "2005 Guarantee Agreement") with the plaintiff to guarantee the Repurchase and the Penalty. The defendants did not fulfil the 2005 Sales Agreements and the 2005 Guarantee Agreement. The plaintiff then commenced legal proceedings and applied for the freezing of the defendants cash and other assets amounting to RMB47,940,000 and sought from the Beijing Court the order of the followings:

1. the execution of the 2005 Sales Agreements and the 2005 Guarantee Agreement;
2. the defendants to purchase from the plaintiff 94 Rover motor vehicles at the price of RMB40,420,000;
3. the defendants to pay to the plaintiff the penalty of RMB7,520,000;
4. Ningbo Phoenix to be responsible for the orders 1 to 3 above; and
5. the defendants to be responsible for the court and legal expenses in relation to this claim.

During December 2005, the Beijing Court handed down judgements in favour of the plaintiff on the above cases. The Beijing Court adjudicated that, for the 2004 Agreements case:

1. the discharge of various agreements signed between the plaintiff and the defendants, including the 2004 Agreements;
2. Ningbo Phoenix to repurchase 24 Rover motor vehicles at the consideration of RMB10,320,000 within 10 days of the judgement;
3. Ningbo Phoenix to pay the interest incurred to the plaintiff;
4. Ningbo Phoenix to pay the court and other expenses amounting to RMB144,000.

42. LEGAL PROCEEDINGS *(Continued)*

For the 2005 Sales Agreements, the Beijing Court adjudicated that:

1. the execution of the 2005 Sales Agreements and the 2005 Guarantee Agreement;

2. Guangzhou Shenfei to repurchase 94 Rover motor vehicles at the consideration of RMB40,420,000;

3. Guangzhou Shenfei to pay the penalty of RMB7,520,000 to the plaintiff;

4. Ningbo Phoenix to guarantee Guangzhou Shenfei for the responsibilities stated above;

5. the defendants to pay the court and other expenses amounting to RMB480,000.

The defendants have made an appeal of which the hearing was commenced on 20 April 2006. No judgement has been handed down by the court as of the date of approval of these financial statements. Provisions have been made in the financial statements in respect of the estimated loss approximately HK$10,195,000 from the repurchase of the 118 Rover motor vehicles, and approximately HK$7,828,000 for the interest, penalties and court expenses.

The Group has been advised by its PRC legal advisors that the defendants have good grounds in the appeal.

(d) Legal proceedings against Zhong Shi by Ningbo Phoenix

Subsequent to the balance sheet date, on 7 March 2006, Ningbo Phoenix commenced legal proceedings against Zhong Shi at the Shanghai No. 1 Intermediate People's Court. Ningbo Phoenix alleged that Zhong Shi was in breach of their obligations under the Cooperation Agreement entered into by Ningbo Phoenix and Zhong Shi and claimed for compensation of loss from Zhong Shi amounted to RMB17,564,000.

(e) Legal proceedings against Guangzhou Shenfei

On 7 December 2005, Shenzhen Province Shin Dai Dong Air Condition Limited (深圳市新大東空調有限公司) commenced the arbitration of a construction fee amounting to RMB293,000 at the Guangzhou Arbitration Commission ("GAC"). The first hearing was held on 13 March 2006. The arbitration amount of RMB293,000 has been fully accrued in the financial statements.

On 21 November 2005, Xin Xin Construction Company (新興建築工程公司) commenced arbitration of a construction fee of RMB4,156,000 at the GAC. The hearing has not yet commenced at the date of approval of the financial statements. The arbitration amount of RMB4,156,000 has been fully accrued in the financial statements.

Subsequent to the balance sheet date, on 17 January 2006, Shanghai Mei Shu Design Co. (上海美術設計公司), commenced a legal proceedings against Guangzhou Shenfei of a construction fee of RMB3,948,000. Guangzhou Shenfei was in the process of seeking advices from the legal advisors. The claim amount of RMB3,948,000 has been fully accrued in the financial statements.

42. LEGAL PROCEEDINGS *(Continued)*

(e) Legal proceedings against Guangzhou Shenfei *(Continued)*

Also on 17 January 2006, Shanghai Long Bok Construction Development Co. Ltd. (上海龍博建設發展有限公司), commenced a legal proceedings against Guangzhou Shenfei of a construction fee of RMB1,130,000. Guangzhou Shenfei was in the process of seeking advices from the legal advisors. The claim amount of RMB1,130,000 has been fully accrued in the financial statements.

43. POST BALANCE SHEET EVENTS

Other than the legal proceedings as detailed in note 42 above, on 20 March 2006, Ningbo Huadu entered into an Equity Transfer Agreement on the transfer of the 55% equity interest in Jinhua Huadu held by Ningbo Huadu with a consideration of RMB6,900,000.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated by the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimising the exposure to financial markets. The most significant financial risks to which the Group is exposed to are described below.

(a) Interest rate risk

The Group currently has no significant interest rate risk other than certain Group borrowings bear floating interest rates. The Group did not enter into interest rates swap contracts to management the Group's exposure to movement in interest rates.

(b) Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk, therefore is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

(c) Foreign currency risk

The Group has transaction currency exposures arising from sales, purchases, capital and other expenditures in RMB which is different from the Company's functional currency. The Group did not enter into foreign currency forward contracts to manage the Group's exposure to movement in foreign currency exchange rates on specific transactions.

(d) Fair value

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short term maturity.

45. MAJOR NON-CASH TRANSACTION

During the year the Company issued 548,792,232 ordinary share capital as a consideration to the shareholders of APG for the acquisition of APG (note 35 and 41).

On 31 December 2005, the Company recorded employee share option expense of HK$7,576,000 which gave rise to an equity compensation reserve in the adoption of HKFRS 2.