

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

## 1 Basis of preparation and accounting policies

These consolidated condensed financial statements are prepared in accordance with the Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and should be read in conjunction with the 2005 annual financial statement.

### Going concern basis

The financial statements have been prepared on a going concern basis, notwithstanding that the Group sustained recurrent losses and had net current liabilities of HK\$96.9 million, capital deficiency of HK\$32.4 million and certain legal proceedings as set out in note 14: litigations at 30 June 2006. 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 that the substantial shareholder will 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 current liabilities.

In preparing this unaudited condensed consolidated financial statements, the directors of the Company have adopted accounting policies consistent with those adopted in the annual financial statements for the year ended 31 December 2005, except for those changes in accounting policies as a result of the adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") issued by the HKICPA, which are effective for the financial period beginning on or after 1 January 2006. In the opinion of the Directors, the adoption of following new HKFRSs will not have significant financial impact to the Group:

HKAS 21 (Amendment)	Net investment in Foreign Operation
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS – Int 4	Determining whether an Arrangement contains a Lease

## 2 Revenues

Revenue represents total invoiced value of goods supplied and services rendered. Revenue recognised during the period is as follows:

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Sale of motor vehicles and provision of repair services	413,315	–
Sale of properties	5,504	–
Revenues from games, rides and other amusement facilities	630	672
Sale of automobile axles	–	–
	<u>419,449</u>	<u>672</u>
Other revenues		
Bank interest income	435	152
Gain on disposal of a subsidiary	1,478	–
Interest income from an associate company	–	1,558
Other interest income	28	28
Miscellaneous	2,762	356
	<u>4,703</u>	<u>2,094</u>
Total revenues	<u>424,152</u>	<u>2,766</u>

## 3 Segment information

### Business segments

The Group is organized into five main business segments, namely distribution of motor vehicles and provision of repair services, property development, operation of indoor game centres, manufacture and sale of automobile axles and investment holdings.

	Six months ended 30 June 2006 (Unaudited)					Group HK\$'000
	Sales of motor vehicles and provision of repair services HK\$'000	Sales of property HK\$'000	Operation of indoor game centres HK\$'000	Sales of automobile axles HK\$'000	Investment holdings HK\$'000	
Revenue						
Sales to external customers	<u>413,315</u>	<u>5,504</u>	<u>630</u>	<u>–</u>	<u>–</u>	<u>419,449</u>
Segment results	<u>(20,680)</u>	<u>(2,825)</u>	<u>(165)</u>	<u>(449)</u>	<u>(10,344)</u>	<u>(34,463)</u>
Unallocated expenses						<u>–</u>
Loss before income tax						<u>(34,463)</u>
Income tax expense						<u>(1,046)</u>
Loss for the period						<u>(35,509)</u>

## Six months ended 30 June 2005 (Unaudited)

	Sales of motor vehicles and provision of repair services HK\$'000	Sales of property HK\$'000	Operation of indoor game centres HK\$'000	Sales of automobile axles HK\$'000	Investment holdings HK\$'000	Group HK\$'000
Revenues						
Sales	<u>-</u>	<u>-</u>	<u>672</u>	<u>-</u>	<u>-</u>	<u>672</u>
Results						
Segment results	<u>-</u>	<u>-</u>	<u>(164)</u>	<u>(661)</u>	<u>(13,008)</u>	<u>(13,833)</u>
Unallocated expenses						-
Income tax expense						-
Share of results of an associate						<u>(1,427)</u>
Loss for the period						<u>(15,260)</u>

**4 Loss before tax**

Loss before tax in the condensed consolidated income statement was determined after charging or crediting the following items:

	For the six months ended	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<b>Charging</b>		
Staff costs (including Directors' emoluments)	<b>12,275</b>	10,370
Depreciation of fixed assets	<b>3,836</b>	1,841
Interest expense	<b>2,593</b>	-
<b>Crediting</b>		
Interest income from bank deposits	<b>435</b>	152

## 5 Income tax expense

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 period in Hong Kong (2005: 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.

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current tax		
– Hong Kong tax for the period	–	–
– Overseas tax for the period	1,046	–
	<hr/>	<hr/>
	1,046	–
Deferred taxation	–	–
	<hr/>	<hr/>
Total income tax expense	1,046	–
	<hr/> <hr/>	<hr/> <hr/>

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

## 6 Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$35,299,000 (2005: HK\$15,202,000) and on the weighted average number of 2,444,243,232 (2005: 1,895,451,000) ordinary shares in issue during the period.

No diluted loss per share has been presented as the effect of the potential ordinary shares outstanding is anti-dilutive.

## 7 Interim dividend

The directors of the Company ("Directors") do not recommend the payment of an interim dividend for the period ended 30 June 2006 (2005: Nil).

## 8 Interests in an associate

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
Goodwill	—	—
Share of net assets	<u>7,680</u>	<u>7,680</u>
	<u><u>7,680</u></u>	<u><u>7,680</u></u>

Particulars of the associate at 30 June 2006 and 31 December 2005 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Assets	Liabilities	Revenue	Profit	Percentage of issued share capital held by the Group %	Principal activities and place of operations
嘉興市實達投資 有限公司 (Jiaxing Shida Investment Co., Ltd.)	Jiaxing, PRC, limited liability company	RMB20,000,000	RMB20,000,000	—	—	—	40%	Property development

Jiaxing Shida was established in 2005 and had not commenced business operations at 30 June 2006.

## 9 Trade receivables

As at 30 June 2006, the aging analysis of the trade receivables (net of impairment) of the Group was as follows:

	As at 30 June 2006 (Unaudited) HK\$'000	As at 31 December 2005 (Audited) HK\$'000
0 – 90 days	25,942	5,609
Over 90 days	<u>—</u>	<u>1,319</u>
	<u><u>25,942</u></u>	<u><u>6,928</u></u>

## 10 Amounts due from related parties

Amounts due from related parties are unsecured, non-interest bearing and have no fixed repayment term.

## 11 Trade payables

As at 30 June 2006, the aging analysis of the trade payables of the Group was as follows:

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
0 – 90 days	<b>14,818</b>	10,384
Over 90 days	<b>7,162</b>	11,777
	<b><u>21,980</u></b>	<u>22,161</u>

## 12 Share capital

	<b>As at 30 June 2006 (Unaudited)</b>		As at 31 December 2005 (Audited)	
	<b>Number of shares</b>	<b>Amount HK\$'000</b>	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	<u>3,000,000,000</u>	<u>300,000</u>	<u>3,000,000,000</u>	<u>300,000</u>
Issued and fully paid	<u>2,444,243,232</u>	<u>244,424</u>	<u>2,444,243,232</u>	<u>244,424</u>

There was no movement of the Company's share capital during the six months ended 30 June 2006.

## 13 Commitments and contingency

### (a) Research and development commitments

On 3 January, 2001, the Company entered into an agreement with the Trustees of Columbia University in the City of New York ("Columbia"), pursuant to which Columbia is 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 is to provide financial support for the said research.

In 2003, the Company has terminated the agreement by written notice to Columbia. Since then, there was no reply received by the Company. The Board considers that the Group has no further research and development commitments at 30 June 2006.

### (b) Capital commitments

The Group has no material capital commitment at 30 June 2006. (2005: nil)

(c) **Lease commitments**

As at 30 June, 2006, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	<b>As at 30 June 2006 (Unaudited) HK\$'000</b>	As at 31 December 2005 (Audited) HK\$'000
Within one year	<b>5,794</b>	8,301
After one year but within five years	<b>10,249</b>	14,969
Over five years	<b>14,686</b>	36,655
	<b><u>30,729</u></b>	<u>59,925</u>

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

(d) **Contingency**

As at 30 June 2006 save as disclosed in the note 14: Litigations below, the Group's contingent liabilities have no material changes from the last year end date.

**14 Litigations**

- (1) On 1 December 2003, the PRC joint venture partner ("Shanghai Partner") of Shanghai Whimsy Amusement Co. ("Shanghai JV"), 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 the Guaranteed Profits. According to the judgment delivered by the Shanghai No. 2 Intermediate People's Court ("Shanghai Court") in favour of the Shanghai Partner, the Shanghai Court ordered the freezing of the bank accounts of Shanghai JV for the payment of the guarantee profits.
- (2) On 4 November 2004, the PRC joint venture partner ("Wuxi Partner") of Wuxi Whimsy Amusement Co. ("Wuxi JV") commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK\$94,000, together with the cancellation of the JV agreement and the liquidation of Wuxi JV. The proceedings were discontinued by the Wuxi Partner in 2005.
- (3) In 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 Automobile Distribution and Services Company Limited (寧波鳳凰汽車銷售服務有限公司), a wholly owned subsidiary of the Company ("Ningbo Phoenix"), commenced legal proceedings against Ningbo Phoenix in Beijing No.1 Intermediate People's Court (the "Beijing Court"). The Plaintiff alleged that Ningbo Phoenix was in breach of its obligations under a cooperation agreement and a supply agreement, both were entered into between the Plaintiff and the Defendant on 5 July 2004 (collectively, the "2004 Agreements"). According to the 2004 Agreements, Ningbo Phoenix would supply MG Rover motor vehicles to the Plaintiff for three years, in the event that there were any material changes in the circumstances during the said period, the 2004 Agreements would be terminated and Ningbo Phoenix would repurchase the unsold motor vehicles from the Plaintiff and pay for the interests that should have been accrued on the sums intended for the purchase of the unsold motor vehicles. In May 2005, the manufacturer of MG Rover in England declared bankrupt and the sales of MG Rover in the PRC were seriously

affected accordingly. The Plaintiff considered that there was a material change in the circumstances and requested Ningbo Phoenix to terminate the 2004 Agreements and repurchase the unsold motor vehicles together with payment for the interests in accordance with the terms of the 2004 Agreements. Ningbo Phoenix refused such request and the Plaintiff commenced legal proceedings against Ningbo Phoenix and applied for the freezing of cash in the sum of RMB13,370,000 and other assets of Ningbo Phoenix, and sought the following orders from the Beijing Court:

- 1) the termination of the 2004 Agreements;
- 2) Ningbo Phoenix to repurchase 24 MG Rover motor vehicles at the price of RMB10,320,000;
- 3) Ningbo Phoenix to compensate the Plaintiff interests accrued in the sum of RMB3,050,000 arising from the funding of the purchase of 118 MG Rover motor vehicles; and
- 4) Ningbo Phoenix to be held liable for the expenses incurred in relation to this claim.

Zhong Shi also commenced another legal proceedings against Guangzhou Shenfei Automobile Sales and Services Company Limited (廣州申飛汽車銷售服務有限公司) (“Guangzhou Shenfei”), a subsidiary of the Company (together with Ningbo Phoenix, the “Defendants”) in the Beijing Court alleging that the Defendants were in breach of their obligations under a motor vehicles sales agreement and a sales services agreement both dated 11 January 2005 (the “2005 Sales Agreements”). According to the 2005 Sales Agreements, Guangzhou Shenfei agreed to repurchase 94 MG Rover motor vehicles during the period between 11 January 2005 and 28 February 2005 (the “Repurchase”), otherwise, Guangzhou Shenfei would be liable for liquidated damages of RMB7,520,000 (the “Liquidated Damages”). On the same date, Ningbo Phoenix also entered into a guarantee agreement (the “2005 Guarantee Agreement”) in favour of the Plaintiff to guarantee the performance of Guangzhou Shenfei’s obligations under the Repurchase and the payment of the Liquidated Damages. The Plaintiff alleged that the Defendants failed to perform the 2005 Sales Agreements and the 2005 Guarantee Agreement and applied for the freezing of the Defendants’ bank accounts and assets including: two bank accounts of Ningbo Phoenix and one bank account of Guangzhou Shenfei; 51% interest in Shanghai Yitong Automobile Sales Co., Ltd. (上海怡通汽車銷售有限公司); 51% interest in Shanghai Yitong Automobile Services Co., Ltd. (上海怡通汽車服務有限公司); 51% interest in Shanghai Jiaoyun-Shengfei Automotive Sales & Services Co., Ltd. (上海交運輕飛汽車銷售有限公司); 51% interest in Guangzhou Shenfei Automotive Sales and Services Co., Ltd. (廣州申飛汽車銷售有限公司); 51% interest in Shanghai Huanya Zhongjin International Trade Co. Ltd. (上海環亞中進國際貿易有限公司) and 50% interest in Ningbo Huadu Real Estate Company Limited (寧波華都房地產有限公司), all of which were held by Ningbo Phoenix, and also sought for the following orders from the Beijing Court:

- 1) the performance of the 2005 Sales Agreements and the 2005 Guarantee Agreement;
- 2) Guangzhou Shenfei to purchase from the Plaintiff 94 MG Rover motor vehicles at the price of RMB40,420,000;
- 3) Guangzhou Shenfei to pay to the Plaintiff the Liquidated Damages of RMB7,520,000;
- 4) Ningbo Phoenix be held liable for the orders sought above; and
- 5) the Defendants be held liable for the expenses incurred in relation to this claim.

In December 2005, the Beijing Court delivered judgments in favour of the Plaintiff on the above cases and the Defendants appealed on the said judgments.

In relation to the case involving the 2004 Agreements, the Beijing Superior People's Court (北京市高級人民法院) dismissed the appeal on 1 June 2006, upheld the judgment of the Beijing Court and ordered:

- 1) the discharge of the 2004 Agreements;
- 2) Ningbo Phoenix to repurchase 24 MG Rover 75 Model motor vehicles at the consideration of RMB10,320,000; and
- 3) Ningbo Phoenix to pay the interest accrued from 28 July 2005 up to the payment date to the Plaintiff.

In relation to the case involving the 2005 Agreements, the Beijing Superior People's Court (北京市高級人民法院) dismissed the appeal on 1 June 2006, upheld the judgment of the Beijing Court and ordered:

- 1) the performance of the 2005 Sales Agreements;
  - 2) Guangzhou Shenfei to purchase 94 MG Rover 75 Model motor vehicles at the consideration of RMB40,420,000;
  - 3) Guangzhou Shenfei to pay the Liquidated Damages of RMB7,520,000 to the Plaintiff;
  - 4) Ningbo Phoenix be liable for the obligations of Guangzhou Shenfei regarding payment of purchase price of the 94 MG Rover motor vehicles and the Liquidated Damages; and
  - 5) the costs of RMB249,710 and the assets preservation fees of RMB240,220 be paid by Guangzhou Shenfei and Ningbo Phoenix in equal shares.
- (4) On 7 March 2006, Ningbo Phoenix commenced legal proceedings against Zhong Shi at Shanghai No. 1 Intermediate People's Court (上海市第一中級人民法院) ("Shanghai Court"). Ningbo Phoenix alleged that Zhong Shi was in breach of its obligations under the cooperation agreement dated 5 July 2004 entered into between Ningbo Phoenix and Zhong Shi and claimed for compensation of loss from Zhong Shi in the sum of RMB17,564,080. In response to Ningbo Phoenix's application for preservation of assets of Zhong Shi pending appeal, the Shanghai Court granted a civil award to freeze the cash and assets held by Zhong Shi, including 41 MG Rover 75 model motor vehicles. On 19 April 2006, the Shanghai Court ruled in favour of Zhong Shi in relation to its opposition based on the ground of inappropriate jurisdiction and transferred the case to the Beijing Court for handling. On 23 August 2006, the appeal by Ningbo Phoenix on the ruling of Shanghai Court in relation to inappropriate jurisdiction was dismissed by Shanghai City Superior People's Court (上海市高級人民法院).
- (5) On 7 December 2005, Shenzhen Province Shin Dai Dong Air-Conditioning Limited (深圳市新大東空調有限公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of purchase price for goods amounting to RMB279,242 and liquidated damages of RMB13,962 at the Guangzhou Arbitration Commission ("GAC"). The hearing was held on 13 March 2006 and an award was made in favour of Shenzhen Province Shin Dai Dong Air-Conditioning Limited and Guangzhou Shenfei was ordered to pay the said purchase price and liquidated damages. On 22 December 2005, the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院) granted a civil award to freeze, attach and seize assets of Guangzhou Shenfei in the amount of RMB293,204.

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- (6) On 21 November 2005, Xin Xing Construction Company (新興建築工程公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of a fee of RMB4,156,299 pursuant to a construction agreement at the GAC. The hearing was held on 9 May 2006 and as at 25 September 2006, no award has been made.
  - (7) On 17 January 2006, Shanghai Mei Shu Design Co. (上海美術設計公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB3,948,269. Judgment in favour of Shanghai Mei Shu Design Co. was delivered on 9 April 2006. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. As at 25 September 2006, no judgment has been delivered.
  - (8) On 17 January 2006, Shanghai Long Bok Construction Development Co. Ltd (上海龍博建設發展有限公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB1,130,056. On 14 April 2006, judgment in favour of Shanghai Long Bok Construction Development Co., Ltd. was delivered. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. As at 25 September 2006, no judgment has been delivered.
  - (9) On 6 March 2006, Xinye Bank, Guangzhou Branch (興業銀行廣州分行) (the "Bank"), commenced two legal proceedings against Guangzhou Shenfei and six guarantors in relation to Guangzhou Shenfei's failure to repay a loan in the sum of RMB15,000,000. The Bank sought for an order that:–
    - 1) Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interests accrued thereon;
    - 2) the six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and
    - 3) Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

The Guangdong Province Guangzhou City Intermediate People's Court (廣東省廣州市中級人民法院) granted a civil award on 31 March 2006 to freeze the bank accounts and assets of Guangzhou Shenfei and the six guarantors, each in an amount of RMB15,000,000 and also attached and seized their assets of an equivalent value.

The two proceedings were heard together on 31 July 2006. Judgments in favour of the Bank as were delivered on 22 August 2006, details as follows:–

- 1) Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interest accrued thereon;
- 2) The six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and
- 3) Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.

(10) On 14 March 2006, Guangzhou City Liwen District Shareholding Economic Association (廣州市荔灣區中南街海南股份經濟聯合社) as plaintiff, commenced legal proceedings against Guangzhou Shenfei in relation to a tenancy agreement at the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院). On 28 March 2006, the court granted a civil award that the assets of Guangzhou Shenfei in the sum of RMB2,500,000 be attached, seized and frozen. The court also handed down judgment in favour of the plaintiff on 6 June 2006 and ordered:

- 1) the discharge of the tenancy agreement made between the parties;
- 2) Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;
- 3) possession of the buildings erected on the land in dispute be delivered to the plaintiff;
- 4) Guangzhou Shenfei to pay (i) the outstanding rent for the period from 15 September 2005 to the date of delivery of possession (at the rate of RMB216,512 per month); (ii) damages on the outstanding rent (from 15 September 2005 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent); and (iii) the court costs in the sum of RMB30,608 and claim preservation fees in the sum of RMB13,020.

Guangzhou Shenfei appealed to the Guangzhou Intermediate People's Court (廣州中級人民法院) and the hearing was held on 13 September 2006. As at 25 September 2006, no judgment has been delivered.

(11) On 14 April 2005, Zhenjiang Dong Lian Storage Company Limited (鎮江東聯倉儲設備有限公司) as plaintiff, commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB132,540 being fees for services rendered and RMB9,100 of overdue interests in relation to a services agreement at Jiangsu Province Zhenjiang City Jingkou District People's Court (江蘇省鎮江市京口區人民法院). The court ruled in favour of the plaintiff and assets in the sum of RMB148,000 of Guangzhou Shenfei have been attached, seized and frozen.

(12) On 21 February 2006, Shangdong Yantai Da Cheng Company (山東烟台大成公司), commenced legal proceedings against Guangzhou Shenfei for payment of a sum of RMB1,000,000 and overdue penalties of RMB76,650 in relation to a sale and purchase of motor vehicles. On 27 February 2006, Shangdong Province Yantai Zhifu District People's Court (山東省煙台市芝罘區人民法院) ordered that the deposit of RMB1,000,000 in the bank account of Guangzhou Shenfei be frozen or other assets of equivalent value be attached, seized and frozen pending hearing.