NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2006

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.

The principal activities of the Company and its subsidiaries (the "Group") were dealership of motor vehicles and spare parts, operating auto malls, property development, operation of indoor game centres and manufacture and sale of automobile axles in the People's Republic of China (the "PRC").

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. 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 2006 were approved by the board of directors on 16 May 2007.

2. ADOPTION OF NEW OR AMENDED HKFRSs

From 1 January 2006, the company has adopted the new and amended HKFRSs, which are relevant to its operations. These include the following new, revised and renamed HKFRSs:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) – Int 4	Determining whether an Arrangement contains A Lease
HK(IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

2. ADOPTION OF NEW OR AMENDED HKFRSs *(Continued)*

The adoption of these new and amended HKFRSs did not result in significant changes to the company's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these standards did not result in significant changes to the amounts or disclosures in these financial statements.

2.1 New or amended HKFRSs that have been issued but are not yet effective

The company has not adopted early the following HKFRSs that have been issued but are not yet effective. The directors of the company anticipate that the adoption of these HKFRSs will have no material impact on the financial statements of the company.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments – Disclosures[1]
HKFRS 8	Operating Segments[7]
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC) – Int 8	Scope of HKFRS 2[3]
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC) – Int 11	Group and Treasury Share Transactions[6]
HK(IFRIC) – Int 12	Service Concession Arrangements[8]

Note:

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2009
8 Effective for annual periods beginning on or after 1 January 2008

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 certain financial assets and financial liabilities. The measurement bases are fully described in the accounting policies below.

At 31 December 2006, the Group had net current liabilities of HK$181,294,000 and net liabilities of HK$116,092,000. This significant capital deficiency indicated the existence of a material uncertainty which cast significant doubt on the Group's ability to continue as a going concern, and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. Notwithstanding this, the financial statements have been prepared on a going concern basis. 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 a 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 obtain the above financial support, the Group might not be able to continue as a going concern, adjustments would have to be made to write down the values of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets to current assets.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than those the combining entities are group entities) are accounted for by applying 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 fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. 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.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest until the minority's share of losses previously absorbed by the Group has been recovered.

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

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. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is adjusted for the post-acquisition changes in the Group's share of the associate's net assets unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.10) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate's profit or loss in which the investment is acquired.

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

3.4 Associates *(Continued)*

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. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

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 individual 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. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities 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 individual financial statements of foreign operations, 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 exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. 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 operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into Hong Kong dollars at the closing rates. Goodwill arising on the acquisitions of foreign operations before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

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

3.5 Foreign currency translation *(Continued)*

Other exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.6 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after eliminated sales within the Group. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Services income are recognised in the accounting period in which the services are rendered.

Revenue arising from the sale of properties held for sale is recognised upon the signing of the sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under forward sales deposits and instalments received.

Revenues from operation of indoor game centres are recognised upon the sales of tokens to customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

Subsidy income is recognised upon the granting of subsidy by the relevant authorities when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to them.

3.7 Borrowing costs

All borrowing costs are expensed as incurred.

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

3.8 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination or an investment over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination or investment in a jointly controlled entity is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

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:

Buildings	Over the terms of the leases or estimated useful lives ranging from 20 years to 40 years, whichever is shorter.
Leasehold improvements, fixture and fittings, and furniture and equipment	Over the terms of the leases or estimated useful lives, ranging from 5 years to 10 years, whichever is shorter
Game equipment	20%
Machinery	10% to 20%
Motor vehicles	10% to 25%

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

3.9 Property, plant and equipment *(Continued)*

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

The gain or loss arising on retirement or 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 costs such as costs such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

3.10 Impairment

Goodwill arising on acquisition of subsidiaries, property, plant and equipment, interests in subsidiaries and associates are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). 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 the goodwill is monitored for internal management purpose.

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

3.10 Impairment *(Continued)*

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, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

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 favourable 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.

3.11 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Where the Group has the use of asses held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rental are charged to the income statement in the accounting period in which they are incurred.

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.

3.12 Financial assets

The Group's financial assets include trade receivables, other receivables, amount due from an associate, amounts due from related companies, pledged bank deposits and cash and cash equivalents.

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

3.12 Financial assets *(Continued)*

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

If there is objective evidence that an impairment loss on receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

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

3.13 Inventories

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.

Other 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 the estimated cost of completion and any applicable selling expenses.

3.14 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 profits 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 profits will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

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

3.14 Accounting for income taxes *(Continued)*

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.

3.15 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.

3.16 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)*

3.17 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' basic 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.

3.18 Share-based 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 and exchange for services acquired from the service providers.

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)*

3.18 Share-based compensation *(Continued)*

For share options granted to service providers in exchange for services acquired, they are measured at fair value of the services received. The fair value of the services are recognised as expense immediately, unless the services qualify for recognise as assets. Corresponding adjustments have been made to equity.

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 equity compensation 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 equity compensation reserve will continue to be held in equity compensation reserve.

3.19 Financial liabilities

The Group's financial liabilities include bank and other loans, trade payables, bills payable, other payables and amounts due to related parties. They are included in balance sheet line items as borrowings, trade payables, accruals and other payable, bills payable and amounts due to related parties under current liabilities.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

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

3.19 Financial liabilities *(Continued)*

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised 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.

3.20 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 uncertain future events not wholly within the control of the Group 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3.21 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.

3.22 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 and land use rights, including additions resulting from acquisitions through purchases of subsidiaries.

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

3.22 Segment reporting *(Continued)*

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 circumstances.

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:

Going concern basis

The Group's financial statements are prepared on going concern basis notwithstanding that the Group had net current liabilities and net liabilities. *Please refer to note 3.1 for details.*

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.

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:

	2006	2005
	HK$'000	HK$'000
Sales and repair of motor vehicles	**856,709**	288,878
Sales of properties held for sale	**6,243**	26,161
Revenues from operation of indoor games centres	**1,087**	1,046
Others	**121**	–
	864,160	316,085

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.

	2006					
	Sale and repair of motor vehicles HK$'000	Sale of property HK$'000	Operation of indoor game centres HK$'000	Manufacture and sales of automobile axles HK$'000	Investment holding and others HK$'000	Total HK$'000
Revenue						
Sales to external customers	856,709	6,243	1,087	–	121	864,160
Segment results	(31,882)	(36,404)	(492)	(14,657)	(28,384)	(111,819)
Finance costs						(4,016)
Loss before income tax						(115,835)
Income tax expense						(365)
Loss for the year						(116,200)
Segment assets	319,701	18,802	290	147	15,513	354,453
Interest in an associate						8,076
Amount due from an associate						1,312
Amounts due from related parties						1,617
Total assets						365,458
Segment liabilities	384,923	31,074	4,089	393	14,639	435,118
Amounts due to related parties						46,432
Total liabilities						481,550
Capital expenditure	9,483	89	4	–	477	10,053
Depreciation	4,312	430	163	822	2,468	8,195
Impairment of property, plant and equipment	–	–	–	3,610	53	3,663
Impairment of receivables	22,456	16,719	–	9,982	252	49,409

6. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

	2005					
	Sale and repair of motor vehicles HK$'000	Sale of property HK$'000	Operation of indoor game centres HK$'000	Manufacture and sales of automobile axles HK$'000	Investment holding and others HK$'000	Total HK$'000
Revenue						
Sales to external customers	288,878	26,161	1,046	–	–	316,085
Segment results	(165,554)	(16,165)	(341)	(1,051)	(36,199)	(219,310)
Finance costs						(2,478)
Share of results of associates						(6,235)
Loss before income tax						(228,023)
Income tax expense						3,524
Loss for the year						(224,499)
Segment assets	255,143	66,952	495	13,959	19,782	356,331
Interest in an associate						7,680
Amounts due from related parties						1,570
Total assets						365,581
Segment liabilities	280,168	37,867	3,652	366	11,476	333,529
Amounts due to related parties						24,727
Total liabilities						358,256
Capital expenditure	91,751	23,819	–	–	660	116,230
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)*

Secondary reporting format – geographical segments

Over 90% of the Group's revenue are 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**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**8,635**	9,994	**468**	607
PRC (excluding Hong Kong)	**338,940**	336,341	**9,576**	115,570
USA	**6,878**	9,996	**9**	53
	354,453	356,331	**10,053**	116,230

7. OTHER INCOME

	2006	2005
	HK$'000	HK$'000
Bank interest income	**1,360**	412
Other interest income	**514**	794
Gain on sale of freehold land	**–**	165
Subsidy income	**1,283**	–
Other service income	**2,117**	–
Miscellaneous	**3,332**	1,964
	8,606	3,335

8. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest charges on:		
Bank loans and overdrafts repayable within five years	**2,035**	1,775
Other loans wholly repayable within five years	**1,981**	703
	4,016	2,478

9. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2006 HK$'000	2005 HK$'000
Auditors' remuneration	**1,213**	850
Depreciation of property, plant and equipment	**8,195**	6,908
Amortisation of land use rights	**160**	276
Impairment of receivables*	**49,409**	8,662
Loss on disposal of property, plant and equipment	**–**	140
Loss on disposal of a subsidiary	**1,170**	–
Cost of inventories recognised as expenses	**846,739**	318,208
Impairment of inventories	**19,584**	1,853
Operating lease charges in respect of land and buildings	**4,005**	5,551
and crediting:		
Gain on disposal of property, plant and equipment	**14**	–

* *Amount includes impairment loss of HK$12,534,000 (2005: HK$5,655,000) in respect of amounts due from minority shareholders of subsidiaries (note 35).*

10. INCOME TAX EXPENSE

For the year ended 31 December 2006, Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profits for the year. For the year ended 31 December 2005, 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 (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.

	2006	2005
	HK$'000	HK$'000
Current tax		
– Hong Kong tax for the year	**2**	–
– Overseas tax for the year	**4,971**	1,866
	4,973	1,866
Deferred tax	**(4,608)**	(5,390)
Income tax expense/(credit)	**365**	(3,524)

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

	2006	2005
	HK$'000	HK$'000
Loss before taxation	**(115,835)**	(228,023)
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdictions concerned	**(35,493)**	(71,105)
Tax effect of non-deductible expenses	**33,536**	65,253
Tax effect of non-taxable revenue	**(2,259)**	(2,691)
Tax losses not recognised as deferred tax asset	**4,566**	5,271
Tax effect of prior year's tax losses utilised this year	**(3)**	(548)
Other temporary differences not recognised	**18**	296
Income tax expense/(credit)	**365**	(3,524)

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

Of the consolidated loss for the year of HK$88,163,000 (2005: HK$218,223,000), a loss of HK$22,585,000 (2005: HK$199,782,000) 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 2006 (2005: Nil) and the Company did not declare 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 HK$88,163,000 (2005: HK$218,223,000) and on the weighted average of 2,444,243,232 (2005: 2,125,492,675) ordinary shares in issue during the year.

Diluted loss per share was not presented because the impact of the exercise of the share options was anti-dilutive.

14. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK$'000	2005 HK$'000
Wages and salaries	**20,971**	24,767
Equity-settled share options granted to directors, employees and service providers	**–**	7,576
Pension costs – defined contribution plans	**2,021**	900
Other benefits	**1,736**	1,846
	24,728	35,089

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Total HK$'000
2006				
Executive directors				
Mr. Yung Yeung	–	3,510	–	3,510
Mr. Chunhua Huang	–	1,170	–	1,170
Mr. Jun Li	–	1,200	12	1,212
Mr. Wing Tak Law, Jack *(note 4)*	–	1,560	12	1,572
Mr. Yuwen Sun	–	–	–	–
Non-executive directors				
Mrs. Chizuko Kubo *(note 1)*	–	–	–	–
Independent non-executive directors				
Mr. Jian Wang *(note 2)*	–	–	–	–
Mr. Bangjie He	–	–	–	–
Dr. Peisheng Hu *(note 3)*	–	–	–	–
Mr. Ho Yip Lee *(note 5)*	80	–	–	80
	80	7,440	24	7,544

Notes:

1. Mrs. Chizuko Kubo has been re-designated as a non-executive director on 21 April 2006.

2. Mr. Jian Wang resigned as an independent non-executive director on 9 November 2006.

3. Dr. Peisheng Hu was appointed as an independent non-executive director on 9 November 2006.

4. Subsequent to the balance sheet date, Mr. Wing Tak Law, Jack resigned as an executive director on 28 February 2007.

5. Subsequent to the balance sheet date, Mr. Ho Yip Lee resigned as an independent non -executive director on 31 March 2007.

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

(Continued)

	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

During the year, three (2005: four) directors waived emoluments of HK$2,193,000 (2005: HK$1,924,000).

15. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT EMOLUMENTS

(Continued)

Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included four (2005: five) directors whose emoluments are reflected in the analysis presented above. The emolument payable to the remaining one individual for the year ended 31 December 2006 are as follows:

	2006	2005
	HK$'000	HK$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	**585**	–

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
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:

	Buildings	Construction in progress	Leasehold improvements, fixture and fittings	Furniture and equipment	Game equipment	Machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005								
Cost	–	–	16526	3,693	58,337	8,923	12,999	100,478
Accumulated depreciation	–	–	(15,568)	(2,143)	(58,181)	(4,563)	(5,774)	(86,229)
Net book amount	–	–	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 amount	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 amount	25,868	–	1,683	4,514	41	7,179	12,996	52,281
Year ended 31 December 2006								
Opening net book value	25,868	–	1,683	4,514	41	7,179	12,996	52,281
Exchange differences	1,305	–	47	145	1	352	356	2,206
Additions	2,239	–	1,909	726	4	1,135	4,040	10,053
Disposals	–	–	–	(29)	–	–	(3,961)	(3,990)
Depreciation	(1,191)	–	(659)	(1,172)	(46)	(1,158)	(3,969)	(8,195)
Impairment	–	–	–	–	–	(3,436)	(227)	(3,663)
Closing net book value	28,221	–	2,980	4,184	–	4,072	9,235	48,692
At 31 December 2006								
Cost	73,964	–	18,929	7,995	60,393	14,955	21,122	197,358
Accumulated depreciation and impairment	(45,743)	–	(15,949)	(3,811)	(60,393)	(10,883)	(11,887)	(148,666)
Net book amount	28,221	–	2,980	4,184	–	4,072	9,235	48,692

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

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$6,196,000 as at 31 December 2006 held by Shanghai Yitong Automobile Sales Co., Ltd., ("Shanghai Yitong Sales"), a subsidiary of the Group. 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$3,111,000 as at 31 December 2006 held by Shanghai Volkswagen Ningbo Sales & Service Co. Ltd. ("Shanghai Ningbo"), a subsidiary of the Group, 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 Shanghai Ningbo 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.

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

iii. There are certain properties with net book value of approximately HK$8,739,000 as at 31 December 2006 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 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 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.

iv. There are no title ownership certificates for certain buildings with net book value of approximately HK$2,909,000 as at 31 December 2006 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 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 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.

v. There are certain buildings of HK$40,637,000 (before impairment) developed by Guangzhou Shenfei Automobile Sales and Services Co. Ltd. ("Guangzhou Shengfei"), a subsidiary of the Group, on a parcel of land leased from Guangzhou Fangcun District Dongjiao Town Hainan Villagers Authority (the "Lessor") for a period of 21 years and 10 months commencing from 15 February 2003. According to the lease agreement, the ownership of the properties on the land belongs to the Lessor. However, Guangzhou Shenfei has the right to use the properties during the tenancy period in accordance with the lease agreement. According to the legal opinion by the Beijing Lawyer, the Lessor has the land use rights to lease the land and the terms and conditions of the lease agreement do not contravene the PRC laws and legislations, and the Lessor is in the course of applying for the real estate ownership certificates for the buildings. The Beijing Lawyer consider that there is no obstacle in 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 2006, the amount of these properties 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
Year ended 31 December 2006				
Opening net book value	–	27	1	28
Additions	362	46	–	408
Depreciation	(60)	(13)	–	(73)
Closing net book amount	302	60	1	363
At 31 December 2006				
Cost	362	75	2	439
Accumulated depreciation and impairment	(60)	(15)	(1)	(76)
Net book amount	302	60	1	363

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:

	2006 HK$'000	2005 HK$'000
Outside Hong Kong, held on leases between 10 to 50 years	**7,919**	26,179

	2006 HK$'000	2005 HK$'000
Opening net carrying amount	**26,179**	–
Exchange differences	**835**	–
Acquisition of a subsidiary	**–**	26,455
Disposal of a subsidiary	**(18,935)**	–
Annual charges of prepaid operating lease payment	**(160)**	(276)
Closing net carrying amount	**7,919**	26,179

18. INTERESTS IN SUBSIDIARIES – COMPANY

	2006 HK$'000	2005 HK$'000
Investments at cost		
Unlisted shares	**230,088**	230,088
Less: Impairment	**(230,088)**	(221,848)
	–	8,240

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

	2006	2005
	HK$'000	HK$'000
Amounts due from subsidiaries	**194,959**	198,568
Less: Impairment	**(194,959)**	(192,733)
	–	5,835
Less: Portion due within one year included under current assets	**–**	(5,835)
Non-current portion included under non-current assets	**–**	–

	2006	2005
	HK$'000	HK$'000
Amounts due to subsidiaries	**232**	112

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

In view of the poor financial performance of the subsidiaries, the directors considered that it was appropriate to make full impairment for the investment costs and amounts due from the subsidiaries.

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

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of issued share capital registered capital	Percentage of issued share 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
Hygeia Land International Limited (海吉亞萊國際有限公司) (Formerly known as Liberty Investment Holdings Limited (立寶投資控股有限公司))	Hong Kong, limited liability company	Ordinary HK$10,000	100	Trading, 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
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
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

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 held by the Company %	Principal activities and place of operations
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 Co., Limited	Hong Kong, limited liability company	Ordinary HK$1,000 Non-voting deferred HK$1,000 *(note d)*	100	Investment holding, Hong Kong
成都歡樂天地有限公司 (Chengdu Happy World Co., Limited) *(note a)*	Chengdu, PRC, limited liability company	RMB10,000,000	97	Ceased operations
河南歡樂天地兒童遊樂有限公司*(note c)* (Henan Whimsy Amusement Company Limited)	Henan, PRC, limited liability company	US$2,000,000	100	Operation of indoor entertainment centre, PRC
上海歡樂天地兒童遊樂有限公司 *(note a)* (Shanghai Whimsy Amusement Co., Limited)	Shanghai, PRC, limited liability company	US$3,000,000	90	Ceased operations
沈陽遼華汽車車橋有限公司 (Shenyang Liao Hua Automobile Axles Co. Ltd.) *(note b)*	Shenyang, PRC, limited liability company	RMB30,000,000	51	Manufacture of automobile axles, PRC
蘇州運時家庭電子娛樂有限公司*(note a)* (Suzhou Whimsy Family Electronic Recreation Co., Limited)	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 held by the Company %	Principal activities and place of operations
無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited) *(note a)*	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
寧波美立資產管理有限公司 (Ningbo Meili Asset Management Co., Ltd.)	Ningbo, PRC, limited liability company	US$8,650,000	100	Investment holding, PRC
寧波美立德諮詢有限公司 (Ningbo Meilide Consulting Co., Ltd.)	Ningbo, PRC, limited liability company	US$750,000	100	Investment holding, PRC
寧波保税區亞飛貿易有限公司 (Ningbo Duty-free Zone Yafei Trading Co., Ltd.)	Ningbo, PRC, limited liability company	RMB1,000,000	100	Investment holding, PRC
寧波鳳凰汽車銷售服務有限公司 (Ningbo Phoenix Automobile Distribution and Services Co., Ltd.) ("Ningbo Phoenix")	Ningbo, PRC, limited liability company	RMB135,357,883	100	Investment holding and trading of motor vehicles, PRC
上海聖飛汽車銷售服務有限公司 (Shanghai Shengfei Automobile Sales and Services Co., Ltd.)	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 held by the Company %	Principal activities and place of operations
上海環亞中進國際貿易有限公司 (Shanghai Huanya Zhougin International Trade Co., Ltd.)	Shanghai, PRC, limited liability company	RMB19,600,000	100	Trading of motor vehicles, PRC
廣州申飛汽車銷售服務有限公司 (Guangzhou Shenfei Automobile Sales and Services Co., Ltd.) ("Guangzhou Shenfei")	Guangzhou, PRC, limited liability company	RMB29,990,000	63.32	Trading of motor vehicles, PRC**
廣東眾大汽車維修有限公司 (Guangzhou Zhongda Automobile Maintenance Co., Ltd.)	Guangzhou, PRC, limited liability company	RMB2,000,000	56.99	Trading of motor vehicles and providing repair and maintenance services, PRC**
廣州申奧汽車銷售服務有限公司 (Guangzhou Shen Ao Automobile Sales and Services Co., Ltd.)	Guangzhou, PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC**
廣東佳馬汽車銷售服務有限公司 (Guangzhou Jiama Automobile Sales and Services Co., Ltd.)	Guangzhou, PRC, limited liability company	RMB5,000,000	56.99	Trading of motor vehicles, PRC**
廣州市申飛通立汽車銷售服務有限公司 (Guangzhou Shenfe Tongli Automobile Sales and Services Co., Ltd.)	Guangzhou, PRC, limited liability company	RMB5,000,000	61.74%	Trading of motor vehicles, PRC**
上海交運聖飛汽車銷售服務有限公司 (Shanghai Jiaoyun Shengfei Automobile Sales and Services Co., Ltd.)	Shanghai, PRC, limited liability company	RMB12,000,000	51%	Trading of motor vehicles and providing repair and maintenance 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 held by the Company %	Principal activities and place of operations
寧波聖菲汽車銷售服務有限公司*(note f)* (Ningbo Shengfei Automobile Sales and Services Co., Ltd.)	Ningbo, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles and providing repair and maintenance services, PRC
上海大眾汽車寧波銷售服務有限公司*(note f)* (Shanghai Volkswagen Ningbo Sales and Services Co., Ltd.)	Ningbo, PRC, limited liability company	RMB2,000,000	51%	Trading of motor vehicles and providing repair and maintenance services, PRC
上海怡通汽車銷售有限公司 (Shanghai Yitong Automobile Sales Co., Ltd.)	Shanghai, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles, PRC
上海怡通汽車服務有限公司 (Shanghai Yitong Automobile Services Co., Ltd.)	Shanghai, PRC, limited liability company	RMB10,000,000	51%	Trading of motor vehicles, PRC
上海大眾汽車台州銷售服務有限公司 *(note g)* (Shanghai Volkswagen Taizhou Sales & Services Co., Ltd.)	Linhai, PRC, limited liability company	RMB5,000,000	51%	Trading of motor vehicles and providing repair and maintenance services, PRC
寧波華都房地產有限公司 *(note e)* (Ningbo Huadu Real Estate Co., Ltd.) ("Ningbo Huadu")	Ningbo, PRC, limited liability company	RMB24,680,000	50%	Property development, PRC

* *Shares held directly by the Company.*

** *Inactive/ceased operation during the year.*

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

Notes:

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

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

c. This subsidiary is a wholly foreign owned enterprise.

d. 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.

e. The board of directors of Ningbo Huadu consists of 7 members of whom 4 members are nominated by Ningbo Phoenix, a 50% owned-subsidiary, therefore, the directors considered that it is appropriate to classify Ningbo Huadu as subsidiary of the Group.

f. During the year, the Group has nominated an independent third party to hold its equity interests in Ningbo Shengfei Automobile Sales and Services Co., Limited and Shanghai Volkswagen Ningbo Sales and Services Company Limited, on the Group's behalf. In the opinion of the directors, after consultation with the Group's PRC lawyers, the holding of equity interests in these two subsidiaries by the independent third party on behalf of the Group, does not violate relevant PRC law and that independent third party has confirmed in writing to the Company that all rights relevant to the holding of the interests above belong to the Group eventually, and therefore, in the opinion of the directors, the Group still has the power to govern the financial and operating policies in these two subsidiaries.

g. On 23 November 2006, the Group had entered into a disposal agreement ("Disposal Agreement") with an independent third party, to dispose of the 51% equity interest in Shanghai Volkswagen Taizhou Sales & Services Co., Ltd. ("Equity Interest") for a consideration of HK$5,581,000, to be paid in cash in one lump sum upon completion. However, as a result of the judgement by The Guangdong Province Guangzhou City Intermediate People's Court, a civil award was granted to freeze the Equity Interest (please refer to note 39(9) for details). The completion of this transaction is conditional, amongst other, upon:

   – compliance of applicable requirements under the Listing Rules by the Group; and
   – the Equity Interest is being released.

   The director are in the opinion that the Equity Interest would be released by July 2007 when the indebtedness due to a bank has been fully repaid. If any of the above conditions could not be fulfilled, subject to the liability of either party to the other in respect of any antecedent breaches of the terms thereof, the Disposal Agreement shall be null and void and of no effect.

   The above transaction is not completed up to the date of this report.

19. INTEREST IN AN ASSOCIATE – GROUP

	2006 HK$'000	2005 HK$'000
Balance at 1 January	**7,680**	–
Transfer from long term investment	**–**	21,423
Share of associate results	**–**	(6,235)
Exchange differences	**396**	–
	8,076	15,188
Transfer to interest in subsidiaries	**–**	(15,188)
Acquisition of an associate during the year	**–**	7,680
Balance at 31 December	**8,076**	7,680

Particulars of the associate at 31 December 2006 are as follows:

Name	Place of incorporation and kind of legal entity	Particulars of registered capital	Assets	Liabilities	Revenue	Profit	Percentage of 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 Shida")	Jiaxing, PRC, limited liability company	RMB20,000,000	RMB20,002,688	RMB2,688	–	–	40%	Not yet commence business

Jiaxing Shida was established during the year ended 31 December 2005 and had not commenced business operation up to 31 December 2006.

20. GOODWILL – GROUP

	2006	2005
	HK$'000	HK$'000
Net carrying amount at 1 January	**–**	–
Acquisition of subsidiaries	**–**	103,608
Impairment losses	**–**	(103,608)
Net carrying amount at 31 December	**–**	–
At 31 December		
Gross carrying amount	**103,608**	103,608
Accumulated impairment	**(103,608)**	(103,608)
	–	–

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

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.

In view of the bankruptcy of the manufacturer of MG Rover in England, and the poor financial performance of American Phoenix Group, Inc and its subsidiaries ("APG"), the directors considered that it was appropriate to provide full impairment for the goodwill generated from the acquisition of APG.

21. INVENTORIES – GROUP

	2006 HK$'000	2005 HK$'000
Motor vehicles and auto parts	**116,671**	84,502
Completed properties held for sale	**26,249**	33,930
Plush toys	**43**	51
Spare parts and other consumables	**949**	277
	143,912	118,760
Less: provision	**(32,888)**	(1,975)
	111,024	116,785

As at 31 December 2006, inventories amounted to HK$5,601,000 (2005: Nil) were pledged to a bank to secure the banking facilities granted to a related company of a minority shareholder of a subsidiary.

22. TRADE RECEIVABLES – GROUP

The aging analysis of the trade receivables of the Group as at 31 December 2006, based on the invoice date, is as follows:

	2006 HK$'000	2005 HK$'000
0 – 30 days	**8,201**	5,174
31 – 60 days	**1,177**	366
61 – 90 days	**1,151**	69
91 – 180 days	**99**	837
Over 180 days	**2,262**	482
	12,890	6,928

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits paid to suppliers	**72,268**	24,319	**–**	–
Sundry receivables	**18,374**	24,835	**546**	3,008
Other prepayments and deposits	**10,511**	11,074	**24**	314
	101,153	60,228	**570**	3,322
Less: Impairment	**(50,064)**	(8,475)	**(252)**	–
	51,089	51,753	**318**	3,322

24. AMOUNTS DUE FROM/(TO) RELATED PARTIES/AN ASSOCIATE

Group

	2006	2005
	HK$'000	HK$'000
Amounts due from related parties		
– minority shareholders of subsidiaries	**1,617**	1,570
Amounts due to related parties		
– minority shareholders of subsidiaries	**24,388**	24,727
– a close family member of a director	**9,348**	–
– subsidiaries of the substantial shareholder	**12,696**	–
	46,432	24,727

Company

	2006	2005
	HK$'000	HK$'000
Amount due to a related party		
– a subsidiary of the substantial shareholder	**3,844**	–

Included under amounts due to subsidiaries of the substantial shareholder is a loan amounted to HK$3,844,000 (2005: HK$Nil) as at 31 December 2006. The loan is unsecured, interest bearing at 5% interest rate per annum and without fixed repayment term. Interest paid to the subsidiaries of the substantial shareholder amounted to HK$92,000 (2005: HK$Nil). Other amounts due from/(to) related parties and an associate are unsecured, interest free and have no fixed repayment terms.

25. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS – GROUP

As at 31 December 2006, pledged deposits and cash and cash equivalents of the Group denominated in Chinese Renminbi ("RMB") amounted to approximately HK$96,374,000 (2005: HK$80,770,000) and HK$20,687,000 (2005:14,960,000) 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. In addition, bank balances totalling HK$28,640,000 (RMB28,370,000) were frozen pursuant to litigation as detailed in note 39, included in pledged bank deposits in consolidated balance sheet.

26. TRADE PAYABLES – GROUP

The aging analysis of the trade payables of the Group as at 31 December 2006, based on the invoice date, is as follows:

	2006	2005
	HK$'000	HK$'000
0 – 30 days	**5,399**	10,083
31 – 60 days	**214**	159
61 – 90 days	**94**	142
91 – 180 days	**1,125**	10,111
Over 180 days	**3,514**	1,666
	10,346	22,161

27. ACCRUALS AND OTHER PAYABLES

	Group		**Company**	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Deposits received from customers	**21,235**	15,879	**–**	–
Construction cost payables	**32,408**	30,156	**–**	–
Accrued staff costs	**5,293**	5,073	**1,919**	1,601
Other taxes, charges and import duties payable	**733**	14,019	**4,600**	4,600
Other payables and accruals	**141,245**	59,381	**6,523**	5,110
	200,914	124,508	**13,042**	11,311

28. 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.

	2006	2005
	HK$'000	HK$'000
Current obligations on:		
– pension – defined contribution plans	**343**	797

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 scheme cost charged to the income statement represents contributions incurred by the Group. During the year ended 31 December 2006, the Group's contributions were approximately HK$2,021,000 (2005: HK$900,000). There was no (2005: Nil) forfeited contribution used to offset the Group's contribution during the relevant period and there was no material forfeited contribution available as at the balance sheet dates to reduce the Group's contribution payable in future periods.

29. BORROWINGS – GROUP

	2006 HK$'000	2005 HK$'000
Bank loans overdue	**2,082**	–
Bank loans repayable within one year	**37,705**	44,496
Other loans repayable within one year	**5,978**	5,685
Total borrowings	**45,765**	50,181

Total borrowings include secured bank loans of HK$39,787,000 (2005: HK$44,496,000) denominated in RMB. Bank loans are secured by certain inventories of the Group and the properties of the minority shareholders 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 6.048% to 6.732% (2005: 5.636% to 7.812%) per annum.

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

The carrying amounts of the borrowings are dominated in the following currencies:

	2006 HK$'000	2005 HK$'000
RMB	**42,311**	46,896
US dollar	**3,454**	3,285
Total borrowings	**45,765**	50,181

30. PROVISIONS – GROUP

	Legal claims	
	2006	2005
	HK$'000	HK$'000
Balance at 1 January	**18,023**	–
Acquisition of a subsidiary	**–**	17,414
Provision made during the year	**–**	609
Utilized as provision for inventories during the year	**(10,195)**	–
Balance at 31 December	**7,828**	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 39.

31. 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 arising from fair value adjustments in respect of acquisition of subsidiaries is as follows:

	2006	2005
	HK$'000	HK$'000
At 1 January	**4,608**	–
Acquisition of subsidiaries	**–**	9,998
Deferred taxation credited to income statement	**(4,608)**	(5,390)
At 31 December	**–**	4,608

As at 31 December 2006, the Group has unused tax losses of HK$55,534,000 (2005: HK$39,721,000) available for offset against future profits. No deferred tax asset has been recognised in due to the unpredictability of future profit streams.

31. DEFERRED TAX – GROUP *(Continued)*

Unused tax losses of HK$45,451,000 (2005: HK$33,868,000) will expire at various dates up to and including 2011. Other tax losses have no expiry date.

32. SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount**	Number of shares	Amount
		HK$'000		HK$'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	**2,444,243,232**	**244,424**	1,895,451,000	189,545
Increase during the year	**–**	**–**	548,792,232	54,879
At 31 December	**2,444,243,232**	**244,424**	2,444,243,232	244,424

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).

33. SHARE-BASED 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.

33. SHARE-BASED COMPENSATION *(Continued)*

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 share options are vested at the date of accepting the offer and exercisable within 10 years from the grant date. 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. All share-based employee compensation will be settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options.

33. SHARE-BASED COMPENSATION *(Continued)*

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

For the year ended 31 December 2006

	Number of share options						
Name	At 1 January 2006	Reclassification during the year	Cancelled during the year	At 31 December 2006	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
	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

33. SHARE-BASED COMPENSATION *(Continued)*

Name	At 1 January 2006	Reclassification during the year	Cancelled during the year	At 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price per share
	Number of share options						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
Mrs. 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, Jack	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
	148,890,000	(5,000,000)	–	143,890,000			

33. SHARE-BASED COMPENSATION *(Continued)*

Name	At 1 January 2006	Reclassification during the year	Cancelled during the year	At 31 December 2006	Date of grant of share options	Exercise period of share options	Exercise price per share
	Number of share options						HK$
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	5,000,000	(3,000,000)	75,900,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
	106,872,000	5,000,000	(3,000,000)	108,872,000			
Other eligible persons							
In aggregate	60,000,000	–	–	60,000,000	9 August 2005	29 August 2005 to 8 August 2015	0.114
	60,000,000	–	–	60,000,000			
	315,762,000	–	(3,000,000)	312,762,000			

33. SHARE-BASED COMPENSATION *(Continued)*

For the year ended 31 December 2005

Name	Number of share options: 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$
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

33. SHARE-BASED 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
	Number of share options						
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
Mrs. 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, Jack	–	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			

33. SHARE-BASED 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
	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	29 August 2005 to 8 August 2015	0.114
	–	60,000,000	–	60,000,000			
	126,362,000	189,400,000	–	315,762,000			

33. SHARE-BASED COMPENSATION *(Continued)*

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.

No share-based compensation expense has been included in the consolidated income statement for 2006 (2005: HK$7,576,000). Share-based compensation expense in 2005 gave rise to an equity compensation reserve as at 31 December 2006 and 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:

	2006		2005	
	Number	**Weighted average exercise price HK$**	Number	Weighted average exercise price HK$
Outstanding at 1 January	**315,762,000**	**0.187**	126,362,000	0.296
Granted	**–**	**–**	189,400,000	0.114
Cancelled	**(3,000,000)**	**0.114**	–	–
Outstanding at 31 December	**312,762,000**	**0.187**	315,762,000	0.187

The options outstanding at 31 December 2006 had an exercise price of HK$0.69, HK$0.382, HK$0.16 or HK$0.114 (2005: HK$0.69, HK$0.382, HK$0.16 or HK$0.114) and a weighted average remaining contractual life of 7.4 years (2005: 8.4 years).

34. RESERVES

Group

	Share premium HK$'000	Translation reserve HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 31 December 2006	**270,761**	**(6,187)**	**7,576**	**(649,699)**	**(377,549)**
At 31 December 2005	270,761	(2,256)	7,576	(561,536)	(285,455)

Company

	Share premium HK$'000	Contributed surplus HK$'000	Equity compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2006	270,761	94,601	7,576	(610,770)	(237,832)
Loss for the year	–	–	–	(22,585)	(22,585)
At 31 December 2006	**270,761**	**94,601**	**7,576**	**(633,355)**	**(260,417)**

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

34. RESERVES *(Continued)*

(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 2006 (2005: Nil).

The employee compensation reserve was made in accordance to the adoption of HKFRS 2.

35. RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group has the following significant related parties transactions during the year:

	2006	2005
	HK$'000	HK$'000
Purchased goods from a subsidiary of the substantial shareholder	**851**	–
Provision for impairment loss in respect of amounts due from minority shareholders of subsidiaries	**12,534**	5,655

36. COMMITMENTS AND CONTINGENCY

(a) Capital commitments

Group

As at 31 December 2006, the Group had the following commitments in respect of construction of properties held for sales:

	2006	2005
	HK$'000	HK$'000
Contracted for	**7,972**	–

The Company had no capital commitment at 31 December 2006 (2005: NIL).

36. COMMITMENTS AND CONTINGENCY *(Continued)*

(b) Lease commitments

Group

As at 31 December 2006, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises and other assets of the Group are as follows:

	2006		2005	
	Land and buildings HK$'000	**Other assets HK$'000**	Land and buildings HK$'000	Other assets HK$'000
Within one year	**7,947**	**112**	8,301	225
After one year but within five years	**16,238**	**–**	14,969	112
Within five years	**35,313**	**–**	36,655	–
	59,498	**112**	59,925	337

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 2006 (2005: NIL).

37. BANKING FACILITIES

At 31 December 2006, the banking facilities granted to the Group, were secured by the following:

(a) Pledge of the Group's inventories of HK$4,553,000;

(b) Pledge of the Group's bank deposit of HK$96,374,000;

(c) Secured by properties of minority shareholders of subsidiaries and related parties of minority shareholders of subsidiaries; and

(d) Joint corporate guarantee of HK$21,200,000 by a related party of minority shareholders of subsidiaries and a subsidiary.

38. BUSINESS COMBINATIONS

(a) Disposal of a subsidiary

For the year ended 31 December 2006, the Group disposed of its entire equity interest of 27.5% in Jinhua Huadu Property Co., Limited (金華市華都置業有限公司) for a consideration of HK$6,797,000.

Details in respect of disposal of a subsidiary were as follows:

	HK$'000
Net assets disposed of:	
Land use right	18,935
Other payables	(1,037)
Amount due to immediate holding company	(3,546)
Amounts due to related parties	(3,099)
	11,253
Less: Minority interests	(3,286)
	7,967
Loss on disposal of a subsidiary	(1,170)
Total consideration	6,797
Satisfied by	
Cash	6,797

An analysis of net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	HK$'000
Cash consideration	6,797
Cash and bank balance disposed	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	6,797

38. BUSINESS COMBINATIONS *(Continued)*

(b) Acquisition of subsidiaries

For the year ended 31 December 2005, the Group completed its acquisition of the 100% interest in APG on 1 August 2005. Prior to that APG was an associate (note 19) of the Group. The acquired business contributed revenues of HK$315,079,000 and net loss of HK$17,948,000 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 the 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
Fair value of shares issued	63,111
Direct costs relating to the acquisition	2,868
Total purchase consideration	110,802
Fair value of net assets acquired	(7,194)
Goodwill *(note 20)*	103,608

The fair value of the shares issued was based on the published share price.

38. BUSINESS COMBINATIONS *(Continued)*

(b) Acquisition of subsidiaries *(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 sales)	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 the associate at the date 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

39. LEGAL PROCEEDINGS

(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 judgement 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 bankruptcy 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;

39. LEGAL PROCEEDINGS *(Continued)*

(3) *(Continued)*

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. (上海交運聖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.

39. LEGAL PROCEEDINGS *(Continued)*

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

39. LEGAL PROCEEDINGS *(Continued)*

(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). On 17 April 2007, the Beijing Court has opened a court session for the case.

(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 Guanzhou 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.

(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 award has been made in favour of the plaintiff of RMB3,030,769.

(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. Judgement 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. Final judgement was delivered on 18 August 2006 to uphold previous judgement.

39. LEGAL PROCEEDINGS *(Continued)*

(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, judgement in favour of Shanghai Long Bok Construction Development Co., Ltd. in the amount of RMB812,000 was delivered. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold previous judgement.

(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. Judgements 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.

39. LEGAL PROCEEDINGS *(Continued)*

(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 judgement 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. Final judgement was made on 8 October 2006 as follows:

1. Discharge of the tenancy agreement made between the parties;

2. Guangzhou Shenfei to pay 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);

3. Guangzhou Shenfei to pay the 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);

4. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;

5. Guangzhou Shenfei to pay the claim preservation fees in the sum of RMB39,506.

39. LEGAL PROCEEDINGS *(Continued)*

(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 (山東煙台大成公司), 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.

The obligations and the expected outflows of economic benefits in respect of the above legal proceedings have been fully provided for in the financial statements as of 31 December 2006.

40. POST BALANCE SHEET EVENTS

Save as disclosed elsewhere in the financial statements, on 23 March 2007, Compass Pacific Capital Limited, a subsidiary of the Company, entered into an equity transfer agreement on the transfer of the entire equity interest in Hygeia Land International Limited, a wholly owned subsidiary, at a consideration of HK$1.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES

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 at its headquarters, in close co-operation with the board of directors, and focuses on actively securing the Group's short to medium term cash flows by minimizing the exposure to financial markets. Long term financial investments are managed to generate lasting returns. 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 bearing floating interest rates. The Group did not enter into interest rates swap contracts to management the Group's exposure to movement in interest rates.

41. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES *(Continued)*

(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.

(e) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirement to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer terms. The Group had net current liabilities of HK$181,294,000 and net liabilities of HK$116,092,000 as at 31 December 2006. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations to meet its debt obligations and to obtain continuing financial support from the substantial shareholder of the Group.

42. COMPARATIVE

Certain comparatives are reclassified during the year to conform to the current year's presentation. In the consolidated cash flow statement, the increase in amounts due to related parties, net for 2005 of HK$18,600,000, are reclassified from under operating activities to financing activities as such presentation is a better description of the nature of the movements in the amounts and is in conformity with the current year's presentation.