



Compass Pacific Holdings Limited
圓通控股有限公司*

(Stock Code:1188)

Interim Report 2007

The board of directors (the "Board") of Compass Pacific Holdings Limited (the "Company") announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six-months ended 30 June 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in thousands of Hong Kong dollars except per share amount)

| | Notes | For the six months ended 30 June | |
|-------------------------------|-------|-------------------------------------|---------------------|
| | | 2007 (Unaudited) | 2006 (Unaudited) |
| Turnover | 2 | 450,141 | 419,449 |
| Cost of sales | | (429,301) | (401,067) |
| Gross profit | | 20,840 | 18,382 |
| Other revenues | 2 | 15,059 | 4,703 |
| Administrative expenses | | (49,934) | (54,955) |
| Loss from operations | | (14,035) | (31,870) |
| Finance costs | | (2,728) | (2,593) |
| Loss before tax | 4 | (16,763) | (34,463) |
| Income tax expense | 5 | (2,105) | (1,046) |
| Loss for the period | | (18,868) | (35,509) |
| Attributable to: | | | |
| Equity holders of the Company | | (19,246) | (35,299) |
| Minority interests | | 378 | (210) |
| | | (18,868) | (35,509) |
| Loss per share – basic | 6 | (0.79) cents | (1.44) cents |

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 JUNE 2007

(Expressed in thousands of Hong Kong dollars)

| | Notes | As at 30 June 2007 (Unaudited) | As at 31 December 2006 (Audited) |
|--|-------|---|---|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 48,075 | 48,692 |
| Land use rights | | 4,868 | 7,919 |
| Interests in an associate | 8 | 8,240 | 8,076 |
| Rental, utilities and other deposits | | 308 | 515 |
| | | 61,491 | 65,202 |
| Current assets | | | |
| Inventories | | 126,302 | 111,024 |
| Trade receivables | 10 | 13,350 | 12,890 |
| Prepayments, deposits and other receivables | | 56,835 | 51,089 |
| Amount due from an associate | | 2,369 | 1,312 |
| Amount due from related parties | 9 | 242 | 1,617 |
| Pledged bank deposits | | 114,043 | 96,374 |
| Cash and cash equivalents | | 33,574 | 25,950 |
| | | 346,715 | 300,256 |
| Current liabilities | | | |
| Trade payables | 11 | 32,544 | 10,346 |
| Accruals and other payables | | 209,387 | 200,914 |
| Amounts due to related parties | 9 | 52,232 | 46,432 |
| Borrowings | | 36,885 | 45,765 |
| Bills payable | | 202,746 | 166,981 |
| Provisions | | 7,828 | 7,828 |
| Tax payable | | 1,388 | 3,284 |
| | | 543,010 | 481,550 |
| Net current liabilities | | (196,295) | (181,294) |
| Net liabilities | | (134,804) | (116,092) |
| EQUITY | | | |
| Equity attributable to Company's equity holders | | | |
| Share capital | 12 | 246,544 | 244,424 |
| Reserves | | (398,759) | (377,549) |
| | | (152,215) | (133,125) |
| Minority interests | | 17,411 | 17,033 |
| Capital deficiency | | (134,804) | (116,092) |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in thousands of Hong Kong dollars)

| | For the six months ended | |
|--|--------------------------------|----------------------|
| | 30 June 2007 (Unaudited) | 2006 (Unaudited) |
| Net cash generated from operating activities | 16,319 | 6,673 |
| Net cash generated from investing activities | 9,408 | 564 |
| Net cash used in financing activities | <u>(18,103)</u> | <u>(15)</u> |
| Increase in cash and cash equivalents | 7,624 | 7,222 |
| Cash and cash equivalents at beginning of the period | <u>25,950</u> | <u>19,611</u> |
| Cash and cash equivalents at the end of the period | <u><u>33,574</u></u> | <u><u>26,833</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2007

(Expressed in thousands of Hong Kong dollars)

For the six months ended 30 June 2007

| | Equity attributable to equity holders of the Company | | | | | Minority interests | Capital deficiency |
|---------------------------|--|----------------|---------------------|-----------------------------|--------------------|--------------------|--------------------|
| | Share capital | Share premium | Translation reserve | Equity compensation reserve | Accumulated losses | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2007 | 244,424 | 270,761 | (6,187) | 7,576 | (649,699) | 17,033 | (116,092) |
| Currency translation | - | - | (2,490) | - | - | - | (2,490) |
| Exercise of share options | 2,120 | 526 | - | - | - | - | 2,646 |
| Loss for the period | - | - | - | - | (19,246) | 378 | (18,868) |
| At 30 June 2007 | <u>246,544</u> | <u>271,287</u> | <u>(8,677)</u> | <u>7,576</u> | <u>(668,945)</u> | <u>17,411</u> | <u>(134,804)</u> |

For the six months ended 30 June 2006

| | Equity attributable to equity holders of the Company | | | | | Minority interests | (Capital deficiency)/ total equity |
|--------------------------|--|----------------|---------------------|-----------------------------|--------------------|--------------------|---------------------------------------|
| | Share capital | Share premium | Translation reserve | Equity compensation reserve | Accumulated losses | | |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2006 | 244,424 | 270,761 | (2,256) | 7,576 | (561,536) | 48,356 | 7,325 |
| Loss for the period | - | - | - | - | (35,299) | (210) | (35,509) |
| At 30 June 2006 | 244,424 | 270,761 | (2,256) | 7,576 | (596,835) | 48,146 | (28,184) |
| Disposal of a subsidiary | - | - | - | - | - | (4,213) | (4,213) |
| At 30 June 2006 | <u>244,424</u> | <u>270,761</u> | <u>(2,256)</u> | <u>7,576</u> | <u>(596,835)</u> | <u>43,933</u> | <u>(32,397)</u> |

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise stated)

1 Basis of preparation and accounting policies

These consolidated condensed financial statements are prepared in accordance with the Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and should be read in conjunction with the 2006 annual financial statements.

Going concern basis

The financial statements have been prepared on a going concern basis, notwithstanding that the Group sustained recurrent losses and had net current liabilities of HK\$196.30 million, capital deficiency of HK\$134.80 million and certain legal proceedings as set out in note 14 at 30 June 2007. In the opinion of the directors, the Group will have sufficient resources to satisfy its future working capital and other financing requirements, after taking into consideration that the substantial shareholder will provide continuing financial support to the Group so as to enable the Group to continue in business as a going concern and to meet its liabilities and obligations as and when they fall due.

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

In preparing this unaudited condensed consolidated financial statements, the directors of the Company have adopted accounting policies consistent with those adopted in the annual financial statements for the year ended 31 December 2006, except for those changes in accounting policies as a result of the adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") issued by the HKICPA, which are effective for the financial period beginning on or after 1 January 2007. In the opinion of the Directors, the adoption of following new HKFRSs will not have significant financial impact to the Group:

| | |
|--------------------|--|
| HKAS 1 (Amendment) | Capital disclosures |
| HKFRS 7 | Financial Instruments: Disclosure |
| HK(IFRIC)-Int 7 | Applying the restatement approach under HKAS29 financial reporting in hyperinflationary economies |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of embedded derivatives |
| HK(IFRIC)-Int 10 | Interim financial reporting and impairment |

The Group has not early adopted the new/revised HKFRSs that have been issued but are not yet effective for the accounting period ending 31 December 2007. The directors of the Company are in the process of making an assessment of the impact of these new/revised HKFRSs to the Group's results of operation and financial position in the period of initial application.

2 Revenues

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

| | For the six months ended | |
|---|---------------------------------|-------------|
| | 30 June | |
| | 2007 | 2006 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Sale of motor vehicles and provision of repair services | 449,739 | 413,315 |
| Sale of properties | 67 | 5,504 |
| Revenues from games, rides and other amusement facilities | 335 | 630 |
| Sale of automobile axles | – | – |
| | 450,141 | 419,449 |
| Other revenues | | |
| Interest income | 737 | 463 |
| Gain on disposal of a subsidiary | 6,272 | 1,478 |
| Gain on disposal of land use right | 5,104 | – |
| Miscellaneous | 2,946 | 2,762 |
| | 15,059 | 4,703 |
| Total revenues | 465,200 | 424,152 |

3 Segment information

Business segments

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

Six months ended 30 June 2007
(Unaudited)

| | Sales of motor vehicles and provision of repair services <i>HK\$'000</i> | Sales of property <i>HK\$'000</i> | Operation of indoor game centres <i>HK\$'000</i> | Sales of automobile axles <i>HK\$'000</i> | Investment holdings and other <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|-----------------------------|---|--------------------------------------|---|--|--|--------------------------|
| Revenue | | | | | | |
| Sales to external customers | <u>449,739</u> | <u>67</u> | <u>335</u> | <u>-</u> | <u>-</u> | <u>450,141</u> |
| Segment results | <u>(14,827)</u> | <u>1,554</u> | <u>(545)</u> | <u>(50)</u> | <u>(2,895)</u> | <u>(16,763)</u> |
| Unallocated expenses | | | | | | <u>-</u> |
| Loss before income tax | | | | | | <u>(16,763)</u> |
| Income tax expense | | | | | | <u>(2,105)</u> |
| Loss for the period | | | | | | <u>(18,868)</u> |

Six months ended 30 June 2006
(Unaudited)

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

4 Loss before tax

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

| | For the six months ended 30 June | |
|---|-------------------------------------|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Charging | | |
| Staff costs (including Directors' emoluments) | 11,619 | 12,275 |
| Depreciation of fixed assets | 3,689 | 3,836 |
| Interest expense | <u>2,794</u> | <u>2,593</u> |
| Crediting | | |
| Interest income | <u>737</u> | <u>463</u> |

5 Income tax expense

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits for the period in Hong Kong (2006: Nil). Tax on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

| | For the six months ended 30 June | |
|--------------------------------|-------------------------------------|---------------------------------|
| | 2007 (Unaudited) HK\$'000 | 2006 (Unaudited) HK\$'000 |
| Current tax | | |
| – Hong Kong tax for the period | – | – |
| – Overseas tax for the period | <u>2,105</u> | <u>1,046</u> |
| | 2,105 | 1,046 |
| Deferred taxation | <u>–</u> | <u>–</u> |
| Total income tax expense | <u>2,105</u> | <u>1,046</u> |

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

6 Loss per share for loss attributable to the equity holders of the Company

The calculation of basic loss per share is based on the Group's loss attributable to shareholders of HK\$19,246,000 (2006: HK\$35,299,000) and on the weighted average number of 2,450,008,425 (2006:2,444,243,232) ordinary shares in issue during the period.

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

7 Interim dividend

The directors of the Company ("Directors") do not recommend the payment of an interim dividend for the period ended 30 June 2007 (2006: Nil).

8 Interests in an associate

| | As at 30 June 2007 (Unaudited) HK\$'000 | As at 31 December 2006 (Audited) HK\$'000 |
|----------------------|--|---|
| Balance at 1 January | 8,076 | 7,680 |
| Exchange difference | 164 | 396 |
| | 8,240 | 8,076 |

Particulars of the associate at 30 June 2007 and 31 December 2006 are as follows:

| Name | Place of incorporation and kind of legal entity | Particulars of issued share capital registered capital | Assets | Liabilities | Revenue | Profit | Percentage of issued share capital held by the Group % | Principal activities and place of operations |
|---|--|--|---------------|-------------|---------|--------|---|--|
| 嘉興市實達投資 有限公司 (Jiaxing Shida Investment Co., Ltd.) | Jiaxing, PRC, limited liability company | RMB20,000,000 | RMB20,000,000 | - | - | - | 40% | Not yet commenced business |

Jiaxing Shida was established in 2005 and had not commenced business operations at 30 June 2007.

9 Amounts due from/(to) related parties

The amount due to a subsidiary of the substantial shareholder is a loan amounted to HK\$8,630,000 (at 31 December 2006: HK\$3,844,000) which is unsecured, interest bearing at 5% interest rate per annum and without fixed repayment term. Other amounts due from/(to) related parties are unsecured, non-interest bearing and have no fixed repayment term.

10 Trade receivables

As at 30 June 2007, the aging analysis of the trade receivables (net of impairment) of the Group was as follows:

| | As at 30 June 2007 (Unaudited) HK\$'000 | As at 31 December 2006 (Audited) HK\$'000 |
|--------------|--|---|
| 0 – 90 days | 9,221 | 10,529 |
| Over 90 days | 4,129 | 2,361 |
| | <u>13,350</u> | <u>12,890</u> |

11 Trade payables

As at 30 June 2007, the aging analysis of the trade payables of the Group was as follows:

| | As at 30 June 2007 (Unaudited) HK\$'000 | As at 31 December 2006 (Audited) HK\$'000 |
|--------------|--|---|
| 0 – 90 days | 25,031 | 5,707 |
| Over 90 days | 7,513 | 4,639 |
| | <u>32,544</u> | <u>10,346</u> |

12 Share capital

| | As at 30 June 2007 (Unaudited) | | As at 31 December 2006 (Audited) | |
|-------------------------------------|---|-------------------------|-------------------------------------|--------------------|
| | Number of shares | Amount HK\$'000 | Number of shares | Amount HK\$'000 |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorised | <u>30,000,000,000</u> | <u>3,000,000</u> | <u>3,000,000,000</u> | <u>300,000</u> |
| Issued and fully paid | <u>2,465,443,232</u> | <u>246,544</u> | <u>2,444,243,232</u> | <u>244,424</u> |

- (i) On 29 June 2007, the authorized share capital of the Company was increased from HK\$300,000,000 to HK\$3,000,000,000 by the creation of an additional 27,000,000,000 new shares.
- (ii) During the period, 21,200,000 share options were exercised to subscribe for 21,200,000 ordinary shares.

13 Commitments and contingency

(a) Commitments

As at 30 June 2007, the Group's commitments have no material changes from the last year end date.

(b) Contingency

Save as disclosed in the note 14 Litigations below, the Group have no material contingent liabilities at 30 June 2007.

14 Litigations

- (1) On 1 December 2003, the PRC joint venture partner ("Shanghai Partner") of Shanghai Whimsy Amusement Co. ("Shanghai JV"), commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK\$454,000 (the "Guarantee Profits"). A provision had been made in the financial statements in the year ended 31 December 2004 in respect of the Guaranteed Profits. According to the judgment delivered by the Shanghai No. 2 Intermediate People's Court ("Shanghai Court") in favour of the Shanghai Partner, the Shanghai Court ordered the freezing of the bank accounts of Shanghai JV for the payment of the guarantee profits.
- (2) On 4 November 2004, the PRC joint venture partner ("Wuxi Partner") of Wuxi Whimsy Amusement Co. ("Wuxi JV") commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK\$94,000, together with the cancellation of the JV agreement and the liquidation of Wuxi JV. The proceedings were discontinued by the Wuxi Partner in 2005.
- (3) In 2005, Zhong Shi Television Purchasing Limited (中視電視購物有限公司) ("Zhong Shi" or the "Plaintiff"), a customer of Ningbo Phoenix Automobile Distribution and Services Company Limited (寧波鳳凰汽車銷售服務有限公司), a wholly owned subsidiary of the Company ("Ningbo Phoenix"), commenced legal proceedings against Ningbo Phoenix in Beijing No.1 Intermediate People's Court (the "Beijing Court"). The Plaintiff alleged that Ningbo Phoenix was in breach of its obligations under a cooperation agreement and a supply agreement, both were entered into between the Plaintiff and the Defendant on 5 July 2004 (collectively, the "2004 Agreements"). According to the 2004 Agreements, Ningbo Phoenix would supply MG Rover motor vehicles to the Plaintiff for three years, in the event that there were any material changes in the circumstances during the said period, the 2004 Agreements would be terminated and Ningbo Phoenix would repurchase the unsold motor vehicles from the Plaintiff and pay for the interests that should have been accrued on the sums intended for the purchase of the unsold motor vehicles. In May 2005, the manufacturer of MG Rover in England declared bankrupt and the sales of MG Rover in the PRC were seriously affected accordingly. The Plaintiff considered that there was a material change in the circumstances and requested Ningbo Phoenix to terminate

the 2004 Agreements and repurchase the unsold motor vehicles together with payment for the interests in accordance with the terms of the 2004 Agreements. Ningbo Phoenix refused such request and the Plaintiff commenced legal proceedings against Ningbo Phoenix and applied for the freezing of cash in the sum of RMB13,370,000 and other assets of Ningbo Phoenix, and sought the following orders from the Beijing Court:

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

Zhong Shi also commenced another legal proceedings against Guangzhou Shenfei Automobile Sales and Services Company Limited (廣州申飛汽車銷售服務有限公司) ("Guangzhou Shenfei"), a subsidiary of the Company (together with Ningbo Phoenix, the "Defendants") in the Beijing Court alleging that the Defendants were in breach of their obligations under a motor vehicles sales agreement and a sales services agreement both dated 11 January 2005 (the "2005 Sales Agreements"). According to the 2005 Sales Agreements, Guangzhou Shenfei agreed to repurchase 94 MG Rover motor vehicles during the period between 11 January 2005 and 28 February 2005 (the "Repurchase"), otherwise, Guangzhou Shenfei would be liable for liquidated damages of RMB7,520,000 (the "Liquidated Damages"). On the same date, Ningbo Phoenix also entered into a guarantee agreement (the "2005 Guarantee Agreement") in favour of the Plaintiff to guarantee the performance of Guangzhou Shenfei's obligations under the Repurchase and the payment of the Liquidated Damages. The Plaintiff alleged that the Defendants failed to perform the 2005 Sales Agreements and the 2005 Guarantee Agreement and applied for the freezing of the Defendants' bank accounts and assets including: two bank accounts of Ningbo Phoenix and one bank account of Guangzhou Shenfei; 51% interest in Shanghai Yitong Automobile Sales Co., Ltd. (上海怡通汽車銷售有限公司); 51% interest in Shanghai Yitong Automobile Services Co., Ltd. (上海怡通汽車服務有限公司); 51% interest in Shanghai Jiaoyun-Shengfei Automotive Sales & Services Co., Ltd. (上海交運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.

In December 2005, the Beijing Court delivered judgments in favour of the Plaintiff on the above cases and the Defendants appealed on the said judgments. In relation to the case involving the 2004 Agreements, the Beijing Superior People's Court (北京市高级人民法院) dismissed the appeal on 1 June 2006, upheld the judgment of the Beijing Court and ordered:

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

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

1. the performance of the 2005 Sales Agreements;
2. Guangzhou Shenfei to purchase 94 MG Rover 75 Model motor 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.

- (4) On 7 March 2006, Ningbo Phoenix commenced legal proceedings against Zhong Shi at Shanghai No. 1 Intermediate People's Court (上海市第一中级人民法院) ("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. On 9 August 2007, the Beijing Court dismissed the claims from Ningbo Phoenix and ordered that Ningbo Phoenix to pay the court fees and assets preservation fee in the amount of RMB185,680.

- (5) On 7 December 2005, Shenzhen Province Shin Dai Dong Air-Conditioning Limited (深圳市新大東空調有限公司) commenced arbitration proceedings against Guangzhou Shenfei for payment of purchase price for goods amounting to RMB279,242 and liquidated damages of RMB13,962 at the Guangzhou Arbitration Commission ("GAC"). The hearing was held on 13 March 2006 and an award was made in favour of Shenzhen Province Shin Dai Dong Air-Conditioning Limited and Guangzhou Shenfei was ordered to pay the said purchase price and liquidated damages. On 22 December 2005, the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院) granted a civil award to freeze, attach and seize assets of Guangzhou Shenfei in the amount of RMB293,204.
- (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. Judgment in favour of Shanghai Mei Shu Design Co. was delivered on 9 April 2006. Guangzhou Shenfei appealed to the Court of Second Instance and the hearing was held on 14 July 2006. Final judgement was delivered on 18 August 2006 to uphold previous judgement.
- (8) On 17 January 2006, Shanghai Long Bok Construction Development Co. Ltd (上海龍博建設發展有限公司), commenced legal proceedings against Guangzhou Shenfei for payment of project fee of RMB1,130,056. On 14 April 2006, judgment in favour of Shanghai Long Bok Construction Development Co., Ltd. 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. Judgments in favour of the Bank as were delivered on 22 August 2006, details as follows:

1. Guangzhou Shenfei to repay the loan in the sum of RMB15,000,000 together with interest accrued thereon;
 2. The six guarantors (including Ningbo Phoenix) be liable for the obligations of Guangzhou Shenfei under the loan arrangement; and
 3. Guangzhou Shenfei and the six guarantors be liable for all costs and expenses incurred in relation to the proceedings and the assets preservation fee.
- (10) On 14 March 2006, Guangzhou City Liwen District Shareholding Economic Association (廣州市荔灣區中南街海南股份經濟聯合社) as plaintiff, commenced legal proceedings against Guangzhou Shenfei in relation to a tenancy agreement at the Guangzhou City Liwen District People's Court (廣州市荔灣區人民法院). On 28 March 2006, the court granted a civil award that the assets of Guangzhou Shenfei in the sum of RMB2,500,000 be attached, seized and frozen. The court also handed down judgment in favour of the plaintiff on 6 June 2006 and ordered:
1. the discharge of the tenancy agreement made between the parties;
 2. Guangzhou Shenfei to deliver vacant possession of the land in dispute to the plaintiff;
 3. possession of the buildings erected on the land in dispute be delivered to the plaintiff;
 4. Guangzhou Shenfei to pay (i) the outstanding rent for the period from 15 September 2005 to the date of delivery of possession (at the rate of RMB216,512 per month); (ii) damages on the outstanding rent (from 15 September 2005 to the date of full repayment at 1% of the outstanding rent per day, subject to a maximum amount equivalent to the outstanding rent); and (iii) the court costs in the sum of RMB30,608 and claim preservation fees in the sum of RMB13,020.

Guangzhou Shenfei appealed to the Guangzhou Intermediate People's Court (廣州中級人民法院) and the hearing was held on 13 September 2006. 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.
- (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.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2007. (2006: nil)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVEIW

Overview

The Group's turnover and loss attributable to shareholders for the first six months of 2007 amounted to HK\$450,141,000 (2006: HK\$419,449,000) and HK\$19,246,000 (2006: HK\$35,299,000) respectively. As compared to the corresponding period in 2006, the turnover increased by 7.32% while the loss decreased by 45.48%. The increase in turnover was mainly due to the sales and repairs of motor vehicles amounting to HK\$449.74 million (2006: HK\$413.32 million). The decrease in loss was mainly due to improved performance in the sales and repairs of motor vehicles, the gain on disposal of land use right in the PRC amounting to HK\$5.10 million and gain on disposal of a loss making subsidiary amounting to HK\$6.27 million.

(a) Sale and repair of motor vehicles

For the first six months of 2007, the turnover and the loss in the segment of sale and repair of motor vehicles were HK\$449.74 million (2006: HK\$413.32 million) and HK\$14.83 million (2006: HK\$20.68 million) respectively.

(b) Sale of properties

For the first six months of 2007, the turnover and the gain in the segment of sale of properties were HK\$67,000 (2006: HK\$5.50 million) and HK\$1.55 million (2006: loss of HK\$2.83 million) respectively. It is expected that the price of properties will rise in the future. Therefore, the sale is suspended from the second half of year 2006. During the period under review, a subsidiary of the Company disposed a land use right in the PRC and recorded a gain approximately HK\$5.10 million.

(c) Games center

The Group continued to operate two indoor family entertainment game centers in the PRC. This business recorded turnover HK\$335,000 (2006: HK\$630,000) and a loss of HK\$545,000 (2006: HK\$165,000) in the first half of 2007. As compared to the corresponding period in 2006, the turnover decreased by 46.83% while the loss increased by 230%. The Group has no intention to commit more resources to this business line as the prospects for operating indoor game centers in PRC is gloomy in the highly competitive environment in the market.

(d) Automobile axles

The Group's 51% owned sino-foreign equity joint venture (the "JV") established in the PRC, Shenyang Liao Hua Automobile Axles Company Ltd suspended its operation since July 2004 as the result of re-allocation of plant. The Chinese joint venture partner requested a substantial expansion of the JV, the Group reviewed and considered the proposal and took a view that the expansion of the JV is not in the best interest of the Group. Since the suspension is not likely to be resumed in near future, for the sake of prudence, the Group had made full impairment for remaining major assets in 2006. During the period under review, this business recorded an immaterial loss.

(e) Investment holdings and others

The Group maintained its position in locating favorable investment projects globally. During the period under review, the Group recorded net loss of HK\$2.90 million (2006: HK\$10.34 million) in this segment. The decrease in loss was mainly due to the disposal of a loss making subsidiary during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2007, net current liabilities of the Group were approximately HK\$196.30 million (At 31 December 2006: HK\$181.30 million). The pledged bank deposits, bank balances and cash were approximately HK\$147.62 million. (at 31 December 2006: HK\$122.32 million) The Group has outstanding borrowings of approximately HK\$291.86 million comprising bills payable and bank loans of approximately HK\$239.63 million and amounts due to related parties of approximately HK\$52.23 million. The bank borrowings are basically on floating interest rates basis. The Group's gearing ratio as at 30 June 2007 was 133.02%, calculated based on the Group's total liabilities of HK\$543,010,000 over total assets of HK\$408,206,000.

HUMAN RESOURCE

The Group had approximately 380 employees at 30 June 2007. It has been the Group's policy to ensure that the pay levels of its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system. The Group has participated in a mandatory provident fund scheme for its employees based in Hong Kong. Shares options may also be granted to eligible persons of the Group for the purpose of providing incentives to participants to contribute to the success of the Group and to enable it to recruit and retain good quality employees in the long run.

CHARGES ON GROUP ASSETS

As at 30 June 2007 save as disclosed in the note 14 of Litigations above, certain of the Group's assets with a net book value approximately of HK\$3.47 million (at 31 December 2006: HK\$4.55 million); bank deposits of HK\$114.04 million (at 31 December 2006: HK\$96.38 million) were pledged to secure the general banking facilities granted to the Group.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

Almost all of the income and expenditure of the Group were denominated in Hong Kong Dollar, Renminbi and United States Dollar. In view of the stability of the exchange rates among these three currencies, the Group has not been subject to exchange rate fluctuation exposure and thus no financial instruments have been adopted for hedging purpose.

NEW BUSINESS, MATERIAL ACQUISITIONS AND DISPOSALS

In 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.

SUBSEQUENT EVENT PLACING OF NEW SHARES

On 6 July 2007, the Company entered into placing agreement with the three places in relation to the placing of an aggregate of 241,860,000 new shares at the placing price of HK\$0.258 per share. The placing shares represent approximately 8.93% of the issued share capital of the Company as enlarged by the placing.

The gross and net proceeds from the placing was approximately HK\$62,399,000 and approximately HK\$62,019,000. The Board intends to apply the net proceeds to pursue investment opportunities that may arise and any net proceeds not deployed will be used as general working capital of the Group to support ongoing operations.

The placing shares was allotted and issued under the relevant general mandated granted by shareholders at annual general meeting of the Company in June 2007.

PROSPECTS

The Board consider to adopt strategies to exit the business which is loss-making and with unpromising prospect. The Board actively explores other investment opportunities in the natural resources or health care areas.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2007, according to the register kept by the Company pursuant to section 336 of the Securities and Futures Ordinance ("SFO") and so far as is known to, or can be ascertained after reasonable enquiry by the Directors, the following persons had an interest or short position in the shares and underlying shares of the Company ("Shares") which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Note | Number of Shares | Percentage |
|--|------|------------------|------------|
| Sun East LLC | 1 | 945,456,600 | 38.35% |
| Pure Shine Limited ("PSL") | | 162,951,000 | 6.61% |
| Brilliance China Automotive Holdings Limited ("BCA") | 2 | 162,951,000 | 6.61% |

Note:

1. Sun East LLC is a company owned as to 35% by Mr. Yung Yeung (shared equally with his wife under the law of California) and 65% by Mr. Manwai Ma and Mr. Yuwen Sun as trustees for certain trusts (the "Trust") established for the benefit of the children of Mr. Yung Yeung at 30 June 2007.
2. PSL is a wholly-owned subsidiary of BCA. By virtue of BCA's interest in PSL, BCA is deemed to be interested in the Shares held by PSL.

Save as disclosed above, no person, other than the Directors, whose interests are set out in the section "Directors' interests in shares" below, had registered an interest in the share capital of the Company that was required to be recorded under Section 336 of the SFO.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2007, the interests of the directors in the share capital of the Company or its associated corporations, as defined in Part XV of the SFO and as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follow:

| Name of Director | Company/ name of associated corporation | Nature of interest | Number of ordinary shares/ debentures |
|-------------------------|--|--------------------------------|--|
| Yung Yeung | Company | Corporate interest (Note 1) | 945,456,600 |
| Yung Yeung | Company | Personal interest (Note 3) | 31,570,000 |
| Yung Yeung | Company | Personal interest (Note 5) | 10,000,000 |
| Jun Li | Company | Personal interest (Note 3) | 5,400,000 |
| Jun Li | Company | Personal interest (Note 4) | 13,540,000 |
| Jun Li | Company | Personal interest (Note 5) | 5,000,000 |
| Chunhua Huang | Company | Personal interest (Note 3) | 5,400,000 |
| Chunhua Huang | Company | Personal interest (Note 4) | 13,540,000 |

| Name of Director | Company/ name of associated corporation | Nature of interest | Number of ordinary shares/ debentures |
|-------------------------|--|--------------------------------|--|
| Chunhua Huang | Company | Personal interest (Note 5) | 5,000,000 |
| Yuwen Sun | Company | Personal interest (Note 4) | 18,940,000 |
| Yuwen Sun | Company | Corporate interest (Note 2) | 945,456,600 |
| Yuwen Sun | Company | Personal interest (Note 5) | 5,000,000 |
| Chizuko Kubo | Company | Personal interest (Note 6) | 10,000,000 |

Notes:

- All these interests represent long positions. These 945,456,600 Shares (representing 38.35% of the issued share capital of the Company as at 30 June 2007) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr. Yung Yeung (shared equally with his wife under the law of California) and as to 65% by Mr. Manwai Ma and Mr. Yuwen Sun as trustee for certain trusts established for the benefit of the children of Mr. Yung Yeung. Mr. Yung Yeung is deemed to be interested in the 945,456,600 Shares by virtue of his interest in Sun East LLC.
- All these interests represent long positions. These 945,456,600 Shares (representing 38.35% of the issued share capital of the Company as at 30 June 2007) are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr. Yung Yeung (shared equally with his wife under the law of California) and as to 65% by Mr. Manwai Ma and Mr. Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr. Yung Yeung. Mr. Yuwen Sun are deemed to be interested in the 945,456,600 Shares by virtue of their interest in Sun East LLC as at 30 June 2007.
- Such number of Shares represents the underlying shares of the options granted under the share option Scheme of the Company adopted on 15 March 1995 ("1995 Scheme"), which was terminated pursuant to a resolution in writing of the shareholders of the Company passed on 12 June 2003 and replaced by the 2003 Scheme (as defined below).
- Such number of Shares represents the underlying shares of the options granted on 5 January 2004 under the share option scheme of the Company adopted on 12 June 2003 ("2003 Scheme").
- Such number of Shares represents the underlying shares of the options granted on 9 August 2005 under the 2003 Scheme.
- Such number of Shares represents the ordinary shares issued by the exercise of share options during the period under review

In addition to the above, Mr. Jun Li has non-beneficial personal equity interests in certain subsidiaries hold for the benefit of the Company solely for the purpose of complying with the minimum company membership requirement.

Save as disclosed in this report, none of the Directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations.

DIRECTORS' RIGHTS TO SUBSCRIBE FOR SHARES

Save as disclosed under the heading "Directors' interests in shares" above, and the heading "Share Option Scheme" below, at no time during the six months ended 30 June 2007 was the Company or any of its subsidiaries a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The following share options were outstanding under the 1995 scheme and 2003 scheme during the period commencing from 1 January to 30 June 2007:

| Name or Category of Participant | As at 1 January 2007 | Shares exercised during the period | Shares lapsed/ cancelled during the period | As at 30 June 2007 | Date of Grant | Exercise Price | Exercise Period |
|------------------------------------|----------------------------|---|--|--------------------------|------------------|-------------------|--------------------|
| Directors: | | | | | | | |
| Yung Yeung | 10,000,000 | - | - | 10,000,000 | Note 1 | Note 1 | Note 1 |
| | 21,570,000 | - | - | 21,570,000 | Note 2 | Note 2 | Note 2 |
| | 10,000,000 | - | - | 10,000,000 | Note 4 | Note 4 | Note 4 |
| Jun Li | 5,400,000 | - | - | 5,400,000 | Note 2 | Note 2 | Note 2 |
| | 13,540,000 | - | - | 13,540,000 | Note 3 | Note 3 | Note 3 |
| | 5,000,000 | - | - | 5,000,000 | Note 4 | Note 4 | Note 4 |
| Chunhua Huang | 5,400,000 | - | - | 5,400,000 | Note 2 | Note 2 | Note 2 |
| | 13,540,000 | - | - | 13,540,000 | Note 3 | Note 3 | Note 3 |
| | 5,000,000 | - | - | 5,000,000 | Note 4 | Note 4 | Note 4 |
| Yuwen Sun | 18,940,000 | - | - | 18,940,000 | Note 3 | Note 3 | Note 3 |
| | 5,000,000 | - | - | 5,000,000 | Note 4 | Note 4 | Note 4 |
| Chizuko Kubo | 5,000,000 | (5,000,000) | - | - | Note 3 | Note 3 | Note 3 |
| | 5,000,000 | (5,000,000) | - | - | Note 4 | Note 4 | Note 4 |
| Wing Tak Law* | 15,500,000 | (4,500,000) | (11,000,000) | - | Note 4 | Note 4 | Note 4 |
| Ho Yip Lee [†] | 5,000,000 | (700,000) | (4,300,000) | - | Note 4 | Note 4 | Note 4 |
| Sub-total | 143,890,000 | (15,200,000) | (15,300,000) | 113,390,000 | | | |

| Name or Category of Participant | As at 1 January 2007 | Shares exercised during the period | Shares lapsed/ cancelled during the period | As at 30 June 2007 | Date of Grant | Exercise Price | Exercise Period |
|--|----------------------------|---|--|--------------------------|------------------|-------------------|--------------------|
| Employees: (in aggregate) | 4,800,000 | - | - | 4,800,000 | Note 1 | Note 1 | Note 1 |
| | 9,400,000 | - | - | 9,400,000 | Note 2 | Note 2 | Note 2 |
| | 18,772,000 | - | - | 18,772,000 | Note 3 | Note 3 | Note 3 |
| | <u>75,900,000</u> | <u>(1,000,000)</u> | <u>-</u> | <u>74,900,000</u> | Note 4 | Note 4 | Note 4 |
| Sub-total | <u>108,872,000</u> | <u>(1,000,000)</u> | <u>-</u> | <u>107,872,000</u> | | | |
| Other eligible persons: (in aggregate) | 60,000,000 | (5,000,000) | - | 55,000,000 | Note 4 | Note 4 | Note 4 |
| Total: | <u>312,762,000</u> | <u>(21,200,000)</u> | <u>(15,300,000)</u> | <u>276,262,000</u> | | | |

There were no share options granted during the period from 1 January 2007 to 30 June 2007.

* *Mr. Wing Tak Law resigned from the office of director on 28 February 2007.*

Mr. Ho Yip Lee resigned from the office of director on 31 March 2007.

Notes:–

- These share options were granted on 16 February, 2000 and are exercisable at a subscription price of HK\$0.69 per Share at any time during the period of 10 years from 16 February, 2000 to 15 February, 2010.
- These share options were granted on 2 November, 2000 and are exercisable at a subscription price of HK\$0.382 per Share at any time during the period of 10 years from 2 November, 2000 to 1 November, 2010.
- These share options were granted on 5 January, 2004 and are exercisable at a subscription price of HK\$0.160 per Share at any time during the period of 10 years from 26 January 2004 to 4 January, 2014.
- These share options were granted on 9 August, 2005 and are exercisable at a subscription price of HK\$0.114 per Share at any time during the period of 10 years from 29 August 2005 to 8 August, 2015.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's securities during the period six months ended 30 June 2007.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six months ended 30 June 2007.

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors during this reporting period, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

AUDIT COMMITTEE

The Company has established an Audit Committee and has adopted the terms of reference governing the authority and duties of Audit Committee. The Audit Committee has reviewed and discussed with management of the Company, the accounting principles and practices adopted by the Group, internal controls and financial reporting matter, including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2007.

On behalf of the Board

Jun Li

Director

Hong Kong, 27 September 2007