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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Compass Pacific Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire or subscribe for securities.



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 1188)

ACQUISITION OF APG VERY SUBSTANTIAL TRANSACTION

A notice convening a special general meeting of the shareholders of Compass Pacific Holdings Limited to be held at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong on Monday, 18 July 2005 at 9:30 a.m. is set out on pages 187 and 188 of this circular. There is a form of proxy for use at the special general meeting of Compass Pacific Holdings Limited accompanying this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the principal place of business in Hong Kong of Compass Pacific Holdings Limited at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 9:30 a.m. on Saturday, 16 July 2005 or, in case of any adjournment, not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

28 June 2005

* For identification purpose only

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DEFINITIONS

In this circular, unless the content otherwise requires, the following expressions have the following meanings:

“1st Acquisition Agreement”	the subscription agreement dated 11 March 2005 made between the Purchaser and APG as supplemented by an extension letter dated 12 May 2005
“1st Acquisition”	the subscription of Subscription Shares contemplated under the 1st Acquisition Agreement
“2nd Acquisition Agreements”	the 39 sets sale and purchase agreements all dated 11 March 2005 entered into between each of the Vendors and the Purchaser for the sale and purchase of the Sale Shares as supplemented by 39 extension letters all dated 12 May 2005
“2nd Acquisition”	the sale and purchase of the Sale Shares contemplated under the 2nd Acquisition Agreements
“Acquisitions”	1st Acquisition and 2nd Acquisition
“APG Group”	APG and its subsidiaries
“APG”	American Phoenix Group, Inc., a company incorporated under the laws of the State of California, the United States of America with limited liability
“associate(s)”	has the meaning given to that term in the Listing Rules
“Board”	board of Directors
“Company”	Compass Pacific Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Stock Exchange
“Completion”	completion of the Acquisitions
“connected person”	has the meaning given to that term in the Listing Rules
“Consideration Shares”	such number of new Shares to be allotted and issued by the Company to satisfy the consideration payable by the Company under the 2nd Acquisition
“Director(s)”	the director(s) of the Company
“Enlarged Group”	the Group and APG Group immediately after Completion

DEFINITIONS

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Price”	the higher of (i) HK\$0.25 per Share and (ii) the average of the closing prices per Share as quoted on the Stock Exchange for 5 trading days prior to the SGM
“Last Trading Day”	11 March 2005, being the last trading day of the Shares on the Stock Exchange immediately prior to the issue of the Company’s announcement dated 18 March 2005 regarding the Acquisitions
“Latest Practicable Date”	27 June 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Loan Agreement”	the loan agreement dated 20 September 2004 entered into between the Purchaser as lender and APG as borrower with respect to a loan facility of US\$5.6 million
“Ningbo Phoenix”	寧波鳳凰汽車銷售服務有限公司(English transliteration: Ningbo Phoenix Automobile Distribution and Services Co., Ltd), a company incorporated under the laws of the PRC with limited liability
“Ningbo Phoenix Group”	Ningbo Phoenix and its subsidiaries
“PRC”	The People’s Republic of China
“Purchaser”	American Compass, Inc., a company incorporated in the State of California, the United States of America, a wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“Sale Shares”	an aggregate of 55,875,144 Class A common stocks in the capital of APG representing 76.18% of its entire existing issued share capital to be purchased by the Purchaser from the Vendors under the 2nd Acquisition Agreements

DEFINITIONS

“SGM”	the special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Acquisitions
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
“Shareholders”	shareholders of the Company
“Share(s)”	ordinary share(s) of HK\$0.1 each in the share capital of the Company
“Star Western”	Star Western Holdings LLC, a company incorporated under the laws of the State of Delaware, the United States of America, a wholly-owned subsidiary of APG
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Shares”	35,569,384 new Class A common stocks in the share capital of APG to be subscribed by the Purchaser under the 1st Acquisition Agreement
“US\$”	the lawful currency of the United States of America
“Vendors”	37 individuals and two limited liability companies, the legal and beneficial owners of the Sale Shares
“%”	per cent.

The exchange rates adopted for the purposes of this circular are: US\$1 to HK\$7.8 and HK\$1 to RMB1.06.

LETTER FROM THE BOARD



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 1188)

Executive Directors:

Yung Yeung (Chairman)

Chunhua Huang (Deputy Chairman)

Jun Li (Chief Executive Officer)

Yuwen Sun

Wing Tak Law, Jack (Chief Financial Officer and
Company Secretary)

Chizuko Kubo

Registered Office:

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

Independent Non-executive Directors:

Jian Wang

Bangjie He

Ho Yip Lee

Principal Place of Business in

Hong Kong:

Suites 612-617, 6th Floor

Hutchison House

10 Harcourt Road, Central

Hong Kong

28 June 2005

To the Shareholders

Dear Sir or Madam,

ACQUISITION OF APG VERY SUBSTANTIAL TRANSACTION

INTRODUCTION

The Board announced on 21 March 2005 that the Purchaser, a wholly-owned subsidiary of the Company, and APG entered into the 1st Acquisition Agreement on 11 March 2005 whereby the Purchaser has conditionally agreed to subscribe for the Subscription Shares at US\$5,753,930 (equivalent approximately to HK\$44,880,654). The Subscription Shares represent approximately 48.5% of the existing issued share capital of APG and approximately 32.66% of the enlarged share capital of APG upon completion of the 1st Acquisition. It was also announced that the Purchaser had entered into the 2nd Acquisition Agreements with the Vendors on 11 March 2005 pursuant to which the Purchaser has conditionally agreed to purchase the Sale Shares at US\$17,589,496 (equivalent to approximately HK\$137,198,069). The Sale Shares represent 76.18% of the existing issued share capital of APG and 51.3% of the enlarged share capital of APG immediately after completion of the 1st Acquisition.

If the Acquisitions are completed in full, APG will become a wholly-owned subsidiary of the Group.

* For identification purpose only

LETTER FROM THE BOARD

The Acquisitions constitute a very substantial acquisition to the Company under the Listing Rules and are subject to the approval of Shareholders. The purpose of this circular is to provide you with further information regarding the Acquisitions and to give you notice of the SGM.

A. THE 1ST ACQUISITION AGREEMENT

Date

11 March 2005 (as supplemented by an extension letter dated 12 May 2005)

Parties

- (1) The Purchaser, a wholly-owned subsidiary of the Company, as purchaser.
- (2) APG, a company incorporated in the State of California, the United States of America, with limited liability.

An extension letter to the 1st Acquisition Agreement dated 12 May 2005 was entered into between the same parties to extend the date for fulfilling the conditions from 10 June 2005 to 31 July 2005 and date of completion of the 1st Acquisition Agreement from within five business days after fulfilment or waiver of the conditions to within fourteen business days thereafter.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, APG and its shareholders (including their ultimate beneficial owners) are third parties independent of the Company and connected persons of the Company save that the Group is a 23.82% shareholder of APG as at the Latest Practicable Date.

The Group subscribed for a 6.5% interest in APG in March 2004 and pursuant to the capital reorganisation of APG in March 2005, the Group's interest was increased to 23.82%, no additional capital contribution by the Group was made in this regard.

As at the Latest Practicable Date, the Group does not have any representation on the board of directors of any member of the APG Group.

Subscription Shares

Pursuant to the Loan Agreement (as announced by the Company on 22 September 2004), the Purchaser as lender advanced US\$5.6 million (equivalent to approximately HK\$43.68 million) to APG which was secured by a share mortgage of 25% equity interest of Star Western, a wholly-owned subsidiary of APG. Up to 11 March 2005 and the Latest Practicable Date, the principal amount outstanding is US\$5.6 million (equivalent to approximately HK\$43.68 million) and the interests accrued thereon is US\$153,930 and US\$273,985 (equivalent to approximately HK\$1.20 million and HK\$2.14 million) respectively.

Under the 1st Acquisition Agreement, the Purchaser has conditionally agreed to subscribe for 35,569,384 Subscription Shares at US\$5,753,930 (equivalent approximately to HK\$44,880,654), representing approximately US\$0.16177 (equivalent approximately to HK\$1.26178) per Subscription

LETTER FROM THE BOARD

Share. The Subscription Shares represent approximately 48.5% of the existing issued share capital of APG and approximately 32.66% of the enlarged share capital of APG upon completion of the 1st Acquisition. The consideration will be satisfied by setting off against the principal amount owed by APG to the Purchaser under the Loan Agreement and the interest accrued thereon as of 11 March 2005 upon completion of 1st Acquisition.

Ranking

The Subscription Shares shall rank *pari passu* in all respects with all existing Class A common stocks of APG in issue as at the date of the 1st Acquisition Agreement and shall be free from all encumbrances.

Consideration

The consideration under the 1st Acquisition has been determined after arm's length negotiations with reference to the means of payment under the 1st Acquisition, the financial and market position and prospects of the APG Group. The Directors consider that the terms of the 1st Acquisition Agreement and the subscription price thereof (being a premium of 5.92% to the audited consolidated net asset value of Ningbo Phoenix Group as at 31 December 2004 and a discount of 1.7% to the audited consolidated net asset value of APG Group as at 31 December 2004 (after adjusting the loan advance of US\$5.6 million under the Loan Agreement)) to be fair and reasonable and in the interest of Company and the Shareholders as a whole.

The terms of payment of the consideration under the 1st Acquisition will allow APG to retain the amount otherwise repayable under the Loan Agreement as its working capital.

Conditions

Completion of the 1st Acquisition Agreement is subject to the fulfillment of, among others, the following conditions:

1. simultaneous completion of the 2nd Acquisition Agreements;
2. the approval by Shareholders in general meeting of (a) the 1st Acquisition; and (b) all other transactions contemplated under the 1st Acquisition Agreement;
3. the obtaining of all consents from government or regulatory authorities or third parties which are necessary or desirable in connection with the execution and performance of the 1st Acquisition Agreement and any of the transactions contemplated under the 1st Acquisition Agreement; and
4. the legal, financial and operational due diligence review on the APG Group having been completed to the satisfaction of the Group.

LETTER FROM THE BOARD

The Purchaser may waive the condition precedents in items 1 and 3 above at any time, and such waiver may be subject to such terms and conditions as may be determined by the Purchaser. To the best knowledge of the Company, no governmental, regulatory or third party consent is required in connection with the execution and performance of the 1st Acquisition Agreement. As at the Latest Practicable Date, the Group has no intention to waive any of the conditions.

B. THE 2ND ACQUISITION AGREEMENTS

Date

11 March 2005 (as supplemented by 39 extension letters dated 12 May 2005)

Parties

- (1) The Vendors, being 37 individuals and 2 limited liability companies, are the legal and beneficial owners of the Sale Shares, which represent 76.18% existing issued share capital of APG. The shareholding of the Vendors in APG ranges from 0.039% to 9.704%.

Both of the two corporate Vendors are limited liability companies principally engaged in the business of financial investments.

- (2) The Purchaser, as purchaser.
- (3) APG.
- (4) The Company.

39 extension letters to the 2nd Acquisition Agreements dated 12 May 2005 were entered into between the same parties to extend the date for fulfilling the conditions from 10 June 2005 to 31 July 2005 and date of completion of the 2nd Acquisition Agreements from within five business days after fulfilment or waiver of the conditions to within fourteen business days thereafter.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry by obtaining their written confirmations, all the Vendors and in the case of the corporate Vendors, its ultimate beneficial owner(s), are third parties independent of the Company and connected persons of the Company.

To the best knowledge of the Directors, the Vendors are independent from and not connected with each other.

Sale Shares

The Sale Shares, being 55,875,144 Class A common stocks of APG, represent (i) 76.18% of the existing entire issued capital of APG; and (ii) 51.3% of the enlarged issued capital of APG after completion of the 1st Acquisition.

LETTER FROM THE BOARD

Consideration

The consideration for the sale and purchase of the Sale Shares is US\$17,589,496 (equivalent to approximately HK\$137,198,069) and will be satisfied by the allotment and issue, at the Issue Price, of the Consideration Shares.

Based on the closing price of the Shares on the Last Trading Day of HK\$0.247 per Share and based on the minimum Issue Price of HK\$0.25, the number of Consideration Shares will be approximately 548,792,263 and the market value attached to the 2nd Acquisition (i.e. the market value of the Consideration Shares) is approximately HK\$135,551,689.

The Company will make a further announcement to inform the Shareholders the number of Consideration Shares to be issued and the effect of shareholding in relation thereto in the event that the Issue Price is higher than HK\$0.25.

Based on the minimum Issue Price of HK\$0.25 per Consideration Share:

1. the Consideration Shares represent approximately 28.95% of the existing issued share capital of the Company and approximately 22.45% of the enlarged issued share capital of the Company immediately following Completion; and
2. the number of Consideration Shares to be allotted and issued to the Vendors ranges from 280,735 Shares to 69,901,966 Shares, representing 0.011% and 2.860% of the enlarged issued share capital of the Company respectively.

The consideration under the 2nd Acquisition and the Issue Price have been determined after arm's length negotiations with reference to the payment method under the 2nd Acquisition, market and financial position and prospects of the APG Group (as set out in the paragraph headed "Reasons for the 1st Acquisition and the 2nd Acquisition" below). The Directors consider that the terms of the 2nd Acquisition Agreements and the Issue Price, being a premium of 48.1% of the audited consolidated net assets value of Ningbo Phoenix Group as at 31 December 2004 and a premium of 37.4% to the audited consolidated net asset value of APG Group as at 31 December 2004 (after adjusting the loan advance of US\$5.6 million under the Loan Agreement), to be fair and reasonable and in the interest of the Company and the Shareholders as a whole.

In considering the consideration payable for the Acquisitions, the Directors have taken into account that the consideration under the 2nd Acquisition would be satisfied by the issue of Consideration Shares at a premium referred to in the section headed "The Issue Price" below and that (i) the minimum Issue Price of HK\$0.25 per Share represents a 346.4% premium over the audited consolidated net asset value of the Group of HK\$0.056 per Share as at 31 December 2004 and (ii) the audited net loss per Share for the year ended 31 December 2004 is HK\$0.0216.

The Directors also considered the difference of the subscription price of approximately US\$0.16177 (equivalent approximately to HK\$1.26178) per Subscription Share under the 1st Acquisition and the purchase price of US\$0.3148 (equivalent approximately to HK\$2.45544) per Sale Share under the 2nd Acquisition is fair and reasonable as the latter represents a premium of obtaining control of APG and the fact that the same is to be paid by the issue of Consideration Shares.

LETTER FROM THE BOARD

The total consideration paid by the Purchaser for the Acquisitions, being US\$23,343,426 (equivalent to approximately HK\$182,078,723) represents a premium of 49.7% of the audited consolidated net assets value of Ningbo Phoenix Group as at 31 December 2004 and a premium of 38.9% to the audited consolidated net asset value of APG Group as at 31 December 2004 (after adjusting the loan advance of US\$5.6 million under the Loan Agreement). The Directors considered that the total consideration payable for the Acquisitions to be fair and reasonable and in the interest of the Company and the Shareholders as a whole with reference to the payment methods under the Acquisitions, market and financial position and prospects of the APG Group and the control of APG Group to be obtained.

Each of the Vendors undertakes to the Company that he/she/it:

1. shall not sell, transfer, assign, or otherwise dispose of the Consideration Shares within the twelve-month period immediately following the date of allotment and issuance of the Consideration Shares; and
2. shall not sell, transfer, assign, or otherwise dispose of more than 50% of the Consideration Shares he/she/it received during the 12 month period after the first anniversary of the date of allotment and issuance of the Consideration Shares.

An application has been made by the Company to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

The Issue Price

Assuming the Issue Price of the Consideration Shares (being the higher of HK\$0.25 per Share and the average of the closing prices per Share as quoted on the Stock Exchange for 5 trading days prior to the SGM) is HK\$0.25 per Share, it represents:

1. a premium of approximately 1.2% to HK\$0.247, the closing price of the Shares on the Stock Exchange on the Last Trading Day;
2. a premium of approximately 3.7% to HK\$0.241, the average closing price of the Shares on the Stock Exchange for the last 5 full trading days up to and including the Last Trading Day;
3. a premium of approximately 1.6% to HK\$0.246, the average closing price of the Shares on the Stock Exchange for the last 10 full trading days up to and including the Last Trading Day; and
4. a premium of approximately 15.2% to HK\$0.217, the closing price of the Shares on the Stock Exchange on the Latest Practicable Date.

LETTER FROM THE BOARD

The Consideration Shares (being 548,792,263 Shares based on the minimum Issue Price of HK\$0.25 each) have an aggregate market value of approximately HK\$135,551,689 (calculated on the basis of HK\$0.247 per Share with reference to the closing price of the Shares on the Stock Exchange on the Last Trading Day).

Conditions

Completion of the 2nd Acquisition Agreements is subject to the fulfillment of, among others, the following conditions:

1. completion of the sale and purchase of such number of Sale Shares so that the Group will have over 80% control of the voting rights of APG;
2. simultaneous completion of the 1st Acquisition Agreement;
3. the approval by the Shareholders in general meeting of (a) the 2nd Acquisition; (b) the allotment and issue of the Consideration Shares; (c) all other transactions contemplated under the 2nd Acquisition;
4. the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Consideration Shares;
5. (when required) the Bermuda Monetary Authority granting its permission to deal in the Consideration Shares;
6. the obtaining of all consents from government or regulatory authorities or third parties which are necessary or desirable in connection with the execution and performance of the 2nd Acquisition Agreements and any of the transactions contemplated under the 2nd Acquisition Agreements;
7. the legal, financial and operational due diligence review on the APG Group having been completed to the satisfaction of the Purchaser.

The Purchaser may waive the condition precedents in items 2 and 6 above at any time, and such waiver may be subject to such terms and conditions as may be determined by the Purchaser. To the best knowledge of the Company, no governmental, regulatory or third party consent is required in connection with the execution and performance of the 2nd Acquisition Agreements. As at the date hereof, the Group has no intention to waive any of the conditions.

COMPLETION OF THE ACQUISITIONS

Completion of the Acquisitions will take place within 14 business days after all the conditions (other than simultaneous completion of the 1st Acquisition and 2nd Acquisition) have either been fulfilled or waived. If any of the conditions to Completion has not been fulfilled (or waived by the Purchaser) by 31 July 2005 (or such later date as the parties may agree in writing), the 1st Acquisition and the 2nd Acquisition will lapse and all obligations and liabilities of all parties thereto will cease except for any antecedent breaches.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE BEFORE AND AFTER COMPLETION

APG

As at the Latest Practicable Date, the Group has a 23.82% shareholding in APG, which it acquired in March 2004 at US\$2.75 million (equivalent to HK\$21.45 million). Immediately after the completion of the Acquisitions in full, APG will become a wholly owned subsidiary of the Group and the Group may nominate such persons to the board of directors of APG as it determines.

The shareholding structure of APG (a) as at the Latest Practicable Date; (b) immediately after completion of the 1st Acquisition; and (c) immediately after completion of the Acquisitions in full is as follows:

Name	Number of Class A common stocks of APG held as at the Latest Practicable Date	Approximate % of issued share capital of APG	Number of Class A common stocks of APG held immediately after completion of 1st Acquisition but before the 2nd Acquisition	Approximate % of issued share capital of APG	Number of Class A common stocks of APG held immediately after completion of 1st Acquisition and 2nd Acquisition in full	Approximate % of issued share capital of APG
The Purchaser	17,467,108	23.82%	17,467,108	16.038%	108,911,636	100%
The Purchaser			35,569,384	32.659%		
The Vendors	55,875,144	76.18%	55,875,144	51.303%	–	–
Total:	73,342,252	100.00%	108,911,636	100.000%	108,911,636	100%

The Company

The shareholding structure of the Company (a) as at the date of the Latest Practicable Date and (b) immediately after Completion based on the minimum Issue Price of HK\$0.25 per Share is as follows:

Name	Number of Shares held as at the Latest Practicable Date	Approximate % of issued Shares	Number of Shares held immediately after Completion in full (note 3)	Approximate % of issued Shares (note 3)
Sun East LLC (note 1)	945,456,600	49.88%	945,456,600	38.68%
Pure Shine Limited (note 2)	162,951,000	8.60%	162,951,000	6.67%
The Vendors	–	–	548,792,263 (note 3)	22.45%
Other public Shareholders	787,043,400	41.52%	787,043,400	32.20%
Total:	1,895,451,000	100.00%	2,444,243,263 (note 3)	100.00%

LETTER FROM THE BOARD

Note:

1. Sun East LLC is a company owned as to 35% by Mr. Yung Yeung and 65% by Mr. Chunhua Huang and Mr. Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr. Yung Yeung.
2. Pure Shine Limited is a wholly-owned subsidiary of Brilliance China Automotive Holdings Limited.
3. If the Issue Price is more than HK\$0.25, the number of Consideration Shares, the total number of Shares in issue and the shareholding of the Vendors in the Company will be reduced accordingly.

The Company will make a further announcement to inform the Shareholders the number of Consideration Shares to be issued and the effect of shareholding in relation thereto in the event that the Issue Price is higher than HK\$0.25.

INFORMATION ON THE APG GROUP

General

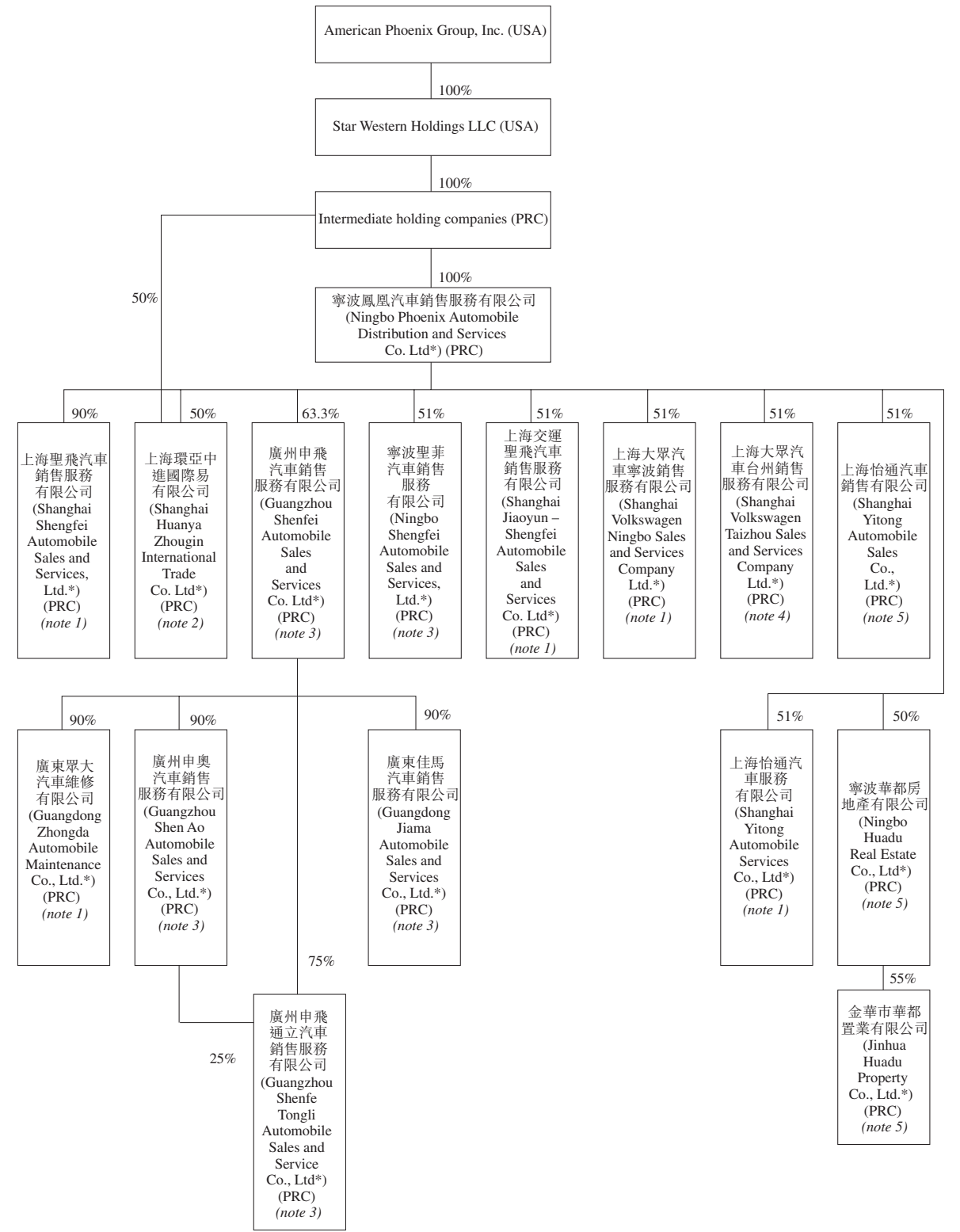
APG is a company incorporated in August 2002 in the State of California, USA and is an investment holding company. As at the Latest Practicable Date, apart from 73,342,252 Class A common stocks outstanding and in issue, there is no other capital stock outstanding and in issue. Through its subsidiaries, APG operates dealerships in motor vehicles in the PRC and auto malls in Guangzhou and undertakes property development business in Ningbo, the PRC.

Star Western is a company incorporated in July 2002 in the State of Delaware, USA and is an investment holding company. Star Western became interested in the Ningbo Phoenix Group since September 2002 and APG acquired the entire interest of Star Western for US\$8,750,000 in January 2004.

LETTER FROM THE BOARD

Structure of the APG Group

The following chart shows the simplified corporate structure of the APG Group as at the Latest Practicable Date:



LETTER FROM THE BOARD

Notes:

The notes denote the principal operating activities of the members of the APG Group:

1. sale of automobiles and parts
2. international trade
3. sale of automobiles (excluding passenger cars) and parts
4. sale of automobiles and sales of Volkswagen auto parts
5. property development

Ningbo Phoenix was incorporated in the PRC in September 2002. The registered capital of Ningbo Phoenix was RMB85,000,000 and has been increased to RMB135,357,883 in December 2003. It established its first subsidiaries in October 2002 in Shanghai and followed by the establishment of a further 8 subsidiaries and acquisition of interest in 6 companies in other major cities in the PRC such as Guangzhou and Ningbo.

Businesses of the APG Group

The principal operating activities of the subsidiaries of Ningbo Phoenix are the dealership of motor vehicles and spare parts, operating auto malls in Guangzhou and property development in the PRC. Ningbo Phoenix is the intermediate holding company of the APG Group.

The APG Group currently has a total of 14 distribution outlets for automobiles located in Shanghai, Ningbo and Guangzhou and 9 repairs centers. For the year ended 31 December 2004, the APG Group distributed 15 brands of passenger cars (on a non-exclusive basis), including MG Rover, GM Buick, Volkswagen, Ford and Audi and sold a total of 9,800 passenger cars.

The APG Group operates 6 auto malls in Guangzhou through 廣州申飛汽車銷售服務有限公司 (English transliteration: Guangzhou Shenfei Automobile Sales and Services Co. Ltd), a 63.3% subsidiary. The malls have a total area of 25,550.9 square metres.

The APG Group also undertakes property development in Ningbo through 寧波華都房地產有限公司 (English transliteration: Ningbo Huadu Real Estate Co., Ltd), a 50% subsidiary. The development project comprises of a residential project in Ningbo, the PRC with a site area of approximately 10,300 square meters. Construction commenced in May 2004. It is currently expected that the development will be completed by October 2005 and out of the current total estimated investment cost for the project of RMB52 million (equivalent to HK\$49.06 million), approximately RMB27.6 million (equivalent to HK\$26.04 million) has been paid up.

The Group did not commit any financial obligations in relation to the businesses of APG Group as a result of the Acquisitions.

LETTER FROM THE BOARD

Financial information of APG Group

According to the audited consolidated accounts of APG for the two years ended 31 December 2004, it has (i) a consolidated net asset of RMB7.8 million and RMB92.6 million (equivalent to approximately HK\$7.4 million and HK\$87.4 million); (ii) a consolidated profit/(loss) before tax and before minority interests of RMB(0.4) million and RMB13.4 million (equivalent to approximately HK\$(0.4) million and HK\$12.6 million); and (iii) a consolidated profit/(loss) after tax and before minority interests of RMB(0.4) million and RMB4.4 million (equivalent to approximately HK\$(0.4) million and HK\$4.2 million) respectively.

According to the audited consolidated accounts of Ningbo Phoenix for the two years ended 31 December 2004, it has (i) a consolidated net asset of RMB122.1 million and RMB128.9 million (equivalent to approximately HK\$115.2 million and HK\$121.6 million); (ii) a consolidated profit/(loss) before tax and before minority interests of RMB(18.1) million and RMB19.3 million (equivalent to approximately HK\$(17.1) million and HK\$18.2 million); and (iii) a consolidated profit/(loss) after tax and before minority interests of RMB(12.0) million and RMB9.9 million (equivalent to approximately HK\$(11.3) million and HK\$9.3 million) respectively.

Please also refer to Appendix II to this circular for the Accountants' Report on the APG Group and to Appendix III to this circular for the Accountants' Report on the Ningbo Phoenix Group.

REASONS FOR THE 1ST ACQUISITION AND THE 2ND ACQUISITION

The principal activities of the Group are the operation of indoor family entertainment game centers and manufacturing and selling automobile axles in the PRC. The performance of these businesses has not been satisfactory in recent years.

The Directors consider that there is substantial room for growth in the dealership of passenger cars in the PRC. With the reduction of car import duty under WTO commitments and more foreign manufacturers are setting up manufacturing facilities in the PRC, the selection available to the Chinese consumers is expected to increase in the next few years. Coupled with the increase in income level, the demand for passenger cars and car ownership are expected to rise. The Directors noted that a sizeable car dealership such as the APG Group (which operates business in major cities and across provinces) is well positioned to become one of the market leaders in this field.

The Group has been engaged in the business of manufacturing automobile parts for several years. The senior management, in particular, the Chairman, Mr. Yeung Yung has considerable experience and expertise in the automobile industry in the PRC.

LETTER FROM THE BOARD

The Acquisitions would enable the Company to have a foothold in car dealership business in the PRC which the Board intends to further expand and to negotiate distributorship of other quality brands of automobiles. The Group hopes to achieve synergy and economies of scale to strengthen bargaining power with car manufacturers on better pricing and delivery timetable. Increase in business activities could also enhance the business activities in cars repair and maintenances.

The Acquisitions will also help to diversify the existing businesses of the Group.

BOARD OF DIRECTORS

None of Vendors indicates that he/she/it has intention to nominate any representation on the Board.

FINANCIAL EFFECTS OF THE ACQUISITIONS ON THE GROUP

After the full completion of the Acquisitions, APG will become a wholly-owned subsidiary of the Company and the post-acquisition financial results of the APG Group will be consolidated with the results of the Group.

(a) Assets and liabilities

As at 31 December, 2004, the audited net asset value of the Group amounted to approximately HK\$106.5 million, representing approximately HK\$0.056 per Share (based on 1,895,451,000 Shares in issue as at 31 December 2004). Based on the unaudited pro forma balance sheet of the Enlarged Group set out in Appendix IV to this circular, the unaudited pro forma adjusted combined net asset value of the Enlarged Group will increase to approximately HK\$243.7 million whereas the issued shares will be increased by a maximum of 548,792,263 to 2,444,243,263 Shares immediately after Completion. As a result, the net asset value per Share would be increased to approximately HK\$0.100.

Upon Completion, a goodwill of approximately HK\$72.11 million equivalent to the amount of premium paid by the Group over consolidated net assets value of the APG Group as at 31 December 2004 will be derived. The goodwill will be recognized at its net carrying value after considering adequate impairment loss, pursuant to the new accounting standards effective 1 January 2005.

(b) Earnings

After completion of the Acquisitions, the financial results of the Group will include 100% of the net earnings of APG Group. For the year ended 31 December 2004, the audited consolidated loss before taxation of the Group is approximately HK\$44.36 million, representing approximately a loss of HK\$0.023 per Share (base on 1,895,451,000 Shares in issue). Based on the unaudited pro forma income statement of the Enlarged Group set out in Appendix IV to this circular, the unaudited pro forma adjusted loss before taxation of the Enlarged Group will decrease to approximately HK\$38.93 million, representing approximately a loss of HK\$0.016 per Share immediately after Completion (assuming 2,444,243,263 Shares in issue immediately after Completion).

LETTER FROM THE BOARD

DISCUSSION AND ANALYSIS OF THE PERFORMANCE OF THE GROUP AND NINGBO PHOENIX GROUP

The Group

For the year ended 31 December 2002

Business review

Turnover for the fiscal year ended 31 December 2002 totalled HK\$15,445,000, an increase of 8% over the same period in 2001. The increase was a result of the resumption of operation of Shenyang Liao Hua Automobile Axles Company Ltd. (“Shenyang JV”), a sino-foreign joint venture engaged in the manufacturing and sale of automobile axles business in the PRC and was owned as to 51% by the Group and 49% by PRC party. The loss attributed to the Shareholders increased by approximately 66.4% from HK\$35,110,000 to HK\$58,436,000. During the period under review, the Group was operating under exceptionally harsh market conditions and suffered from internal conflict within the Board in composition prior to 22 November 2002. With a new composition of the board of directors, the Company was then able to centralize its efforts in improving business operations to the benefit of the Company and its Shareholders.

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year of 2002.

Financial review

The Group had cash and bank balances of approximately HK\$124.31 million and without any loan liability as at 31 December 2002. Accordingly, the gearing ratio was zero, calculated on the basis of the Group’s borrowing over shareholders’ fund.

As at 31 December 2002, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities were secured by a certificates of deposit amounted to HK\$700,000. There was no other material charges on group assets.

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 had not been subject to exchange rate fluctuation exposure and thus no financial instruments had been adopted for hedging purpose.

LETTER FROM THE BOARD

For the year ended 31 December 2003

Business review

Compared with the previous year, the Group's turnover for the year ended 31 December 2003 increased by 12% to approximately HK\$17.27 million while gross profit decreased by 54.4% to approximately HK\$3.22 million. The turnover for sale of automobile axles increased more than twice to approximately HK\$12.59 million, representing 72.9% of the total turnover of the Group during the year under review. The increase was due to the resumption of operation since October 2002. The turnover in previous year only reflected the sales in the last quarter of that year while the turnover in the year under review reflected the sales of a whole year. The turnover for the entertainment game center operations was decreased by 50% to approximately HK\$4.68 million. Even though there was significant increase in sales of automobile axles business, the gross profit on sales of automobile axles was much lower than the entertainment centers operations which resulted in the decrease of total gross profit, hence the Group has recorded an unaudited loss attributable to shareholders of HK\$51.40 million for the year ended 31 December 2003. The slight decrease in loss was mainly attributable to the success in cost saving.

During the year under review, the Group operated four entertainment centers in the PRC. The outbreak of SARS in the PRC led to a drop in turnover and a significant increase in loss for these operations.

The Shenyang JV achieved a turnover of about HK\$12.59 million. The loss on sales of automobile axles decreased from HK\$1.60 million to HK\$1.37 million. The improved result was due to the better utilization of the assets. The Group had taken steps to utilize the Shenyang JV's internal resources to advance its production lines with the aim to improve the quality of its products and make them more competitive and attractive to potential customers in the open market.

There was no new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year of 2003.

Financial review

The Group had cash and bank balances of approximately HK\$132.92 million and without any loan liability as at 31 December 2003. Accordingly, the gearing ratio was zero, calculated on the basis of the Group's borrowing over shareholders' fund.

As at 31 December 2003, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities were secured by a time deposit of HK\$700,000. There was no other material charges on group assets.

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

LETTER FROM THE BOARD

For the year ended 31 December 2004

Business review

During the year, the Group's turnover amounted to approximately HK\$6.76 million, representing a decrease of approximately 60.8% as compared to that of 2003. The decrease was due to the closure of game centers and suspension of production of automobile axles. The Group had recorded an audited loss attributable to shareholders of HK\$40.92 million for the year ended 31 December 2004, which represent a decrease of approximately 20.4% when compared to 2003. The decrease in loss was mainly attributable to the success in cost saving.

At the beginning of the year under review, the Group was operating four indoor family entertainment game centers in the PRC. During the year, the entertainment game centers in Shanghai and Wuxi were closed because of poor performance and expiry of tenancy agreement respectively. Total revenue and loss incurred from the Shanghai and Wuxi entertainment game centers for the year ended 31 December 2004 were approximately HK\$520,000 and HK\$720,000 respectively. The closure of the entertainment game centers resulted in a significant decrease in turnover to about HK\$1.66 million when compared to HK\$4.68 million in 2003. The recorded loss was decreased by 76.8% from HK\$6.09 million in 2003 to HK\$1.41 million for the year ended 31 December 2004. This was because the losses due to closure of entertainment game centers had been fully provided and reflected in last year results. The Chinese joint venture partners had taken legal action against the subsidiaries of the Company for compensating their guaranteed profits and legal fees.

The Shenyang JV maintained operations in the first half of 2004 with revenue amounting to approximately HK\$5.1 million. However as the local government reclaimed the land of the site of the JV for redevelopment, the JV needed to relocate to a new site causing a substantially impairment to its fixed assets, hence the Shenyang JV reported a loss attributable to the Group (after deducting minority interests) of approximately HK\$4.73 million for the year ended 31 December 2004. Due to the re-allocation of plant, the production was temporarily suspended. The Chinese joint venture partner requested a substantial expansion of the Shenyang JV, the Group is reviewing and considering the proposal in a view of maximizing the Group's benefit and in the best interest of the Group.

The Group maintained its position in locating favorable investment projects globally. During the year, the Group managed to reduce its expenses but still recorded a net loss of approximately HK\$34.78 million.

In March 2004, the Group had made an investment of US\$2.75 million in APG, which holds a controlling stake in Ningbo Phoenix. Ningbo Phoenix had 14 points of sales and 9 repairs centers located in major cities in the PRC and it distributed 15 brands of passenger cars on a non-exclusive basis. The investment enabled the Company to have a foothold in car dealership business in the PRC which the Board intended to further expand and to negotiate distributorship of other quality brands of automobiles. The Group hoped to achieve synergy and economies of scale to strengthen bargaining power with car manufacturers on better pricing and delivery timetable.

Save as disclosed above, there was no other new business, material acquisitions and disposals of subsidiaries and associated companies in the financial year ended 31 December 2004.

LETTER FROM THE BOARD

Financial review

The Group had cash and bank balances of approximately HK\$31.83 million and without any loan liability as at 31 December 2004. Accordingly, the gearing ratio was zero, calculated on the basis of the Group's borrowing over Shareholders' fund.

As at 31 December 2004, the Group had aggregate banking facilities of HK\$500,000, all of them remained unutilized. The facilities were secured by a time deposit of HK\$700,000. There was no other material charges on group assets.

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

The Ningbo Phoenix Group

For the year ended 31 December 2002

Ningbo Phoenix was registered in PRC on 30 September 2002 with a registered capital of RMB85 million. It was engaged in the business of dealership of motor vehicles and spare parts. In 2002, 2 subsidiaries in Shanghai were established. As it was still at the early stage of its establishment and expansion plan, it did not commence trading yet and therefore recorded no turnover and suffered a net loss of RMB844,000 and its net asset value was RMB84.2 million as at 31 December 2002. As at 31 December 2002, Ningbo Phoenix Group had cash and bank balances of approximately RMB54.12 million and no loan liabilities. The gearing ratio for Ningbo Phoenix Group as at 31 December 2002 was zero calculated on the basis of borrowing over shareholders' funds.

For the year ended 31 December 2003

The share capital of Ningbo Phoenix was increased from RMB85 million to approximately RMB135.36 million in December 2003.

During the year, Ningbo Phoenix Group expanded through partnership with local dealers and acquisition of established dealership. It commenced trading in 2003 and acquired majority shareholdings in 15 PRC companies principally engaged in sales of automobiles and parts. It recorded an audited consolidated turnover of approximately RMB145.6 million attributable to the sales of automobiles and parts. However, due to the high operating cost which had not reached its economies of scale, its suffered an audited consolidated net loss of approximately RMB12.4 million. As at 31 December 2003, its net asset value was approximately RMB122.1 million. As at 31 December 2003, Ningbo Phoenix Group had cash and bank balances of approximately RMB44.67 million and pledged bank deposits and restricted bank balances were approximately RMB147.14 million and RMB1.34 million respectively. Secured bills payable and bank loans were approximately RMB238.33 million and RMB31.85 million respectively. Gearing ratio for Ningbo Phoenix Group as at 31 December 2003 was 2.2.

LETTER FROM THE BOARD

For the year ended 31 December 2004

In 2004, Ningbo Phoenix Group was exploring the full potential of its established subsidiaries. It expanded further with the acquisition of additional 3 subsidiaries, and in October 2004, it acquired a subsidiary in Ningbo which was engaged in property development. However, Ningbo Phoenix also underwent internal streamlining by disposing its interest (i) in three subsidiaries (all were engaged in sales of automobile and parts) back to the original shareholders at the original purchase price. These original shareholders were also former shareholders of Ningbo Phoenix and APG. (ii) in one subsidiary (which was engaged in sales of automobile and parts) to a third party at the original investment cost to restructure its distribution network; and (iii) in one subsidiary (which was engaged in property development) to a related party to realise appreciation in value of its investment. Another subsidiary was also de-registered.

The turnover of Ningbo Phoenix Group increased to approximately RMB1,121.7 million of which approximately RMB1,104 million was derived from sales of automobiles and parts and the rest was derived from sales of properties. It recorded an audited consolidated net profit of approximately RMB6.78 million and its audited net asset value was RMB128.9 million at 31 December 2004. As at 31 December 2004, Ningbo Phoenix Group had cash and bank balances of approximately RMB47.82 million. Pledged bank deposits and restricted bank balances were RMB111.51 million and RMB2.89 million respectively. Secured bills payable and bank loans were RMB220.11 million and RMB88.05 million respectively. Gearing ratio for Ningbo Phoenix Group in 2004 was 2.39.

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

Directors' view on the modified opinion made by the reporting accountant

In view that five subsidiaries of the APG Group were acquired/incorporated and disposed of, and one subsidiary was incorporated and de-registered during the financial year ended 2004 (the said six subsidiaries are referred to as "Unconsolidated Subsidiaries"), the APG Group was not able to produce the books and records of these companies for consolidation of their attributable results into the consolidated financial statements of Ningbo Phoenix Group and APG Group for the year ended 31 December 2004 as required under the Statement of Standard Accounting Practice No. 32 issued by the Hong Kong Institute of Certified Public Accountants. Disclosures of information on the Unconsolidated Subsidiaries results attributable to APG Group as required by Schedule 10 of the Companies Ordinance have not been included. Accordingly, the reporting accountant has modified their opinion in relation to the consolidated financial statements of APG and Ningbo Phoenix.

Background

In January 2004, APG acquired the issued share capital of Star Western which held amongst others, three of the Unconsolidated Subsidiaries (namely, Shanghai Volkswagen Chengdu Shenrong Sales & Service Co. Ltd ("Chengdu Shenrong"), Beijing Shenyin Automobile Sales Co. Ltd. ("Beijing Shenyin") and Shanghai Volkswagen Tianjin Dongli Sales & Service Co. Ltd. ("Tianjin Dongli")). These Unconsolidated Subsidiaries were acquired by Ningbo Phoenix in 2003. The Directors were advised by

LETTER FROM THE BOARD

the management of APG that after the acquisition of Star Western by APG in early 2004, the minority shareholders/directors of these three Unconsolidated Subsidiaries were not accustomed to the management standards of APG in particular relating to corporate governance and accounting standards and with the approval from APG, the interests held by Ningbo Phoneix in these three Unconsolidated Subsidiaries were disposed back to the original vendors at the original price (which was determined by the then management of Star Western and those vendors) in or about the last quarter of 2004.

One of the Unconsolidated Subsidiaries, Sichuan Shenrong Sales & Service Co. Ltd. was incorporated by Ningbo Phoneix as a 51% shareholder in January 2004, Ningbo Phoneix subsequently sold its entire interest to a third party at the original investment cost in October 2004 to restructure its distribution network.

Xian Tongfei Sales & Service Co. Ltd. was established in May 2003 as a 99% subsidiary of Ningbo Phoneix and business has not been commenced. It was de-registered in April 2004 due to internal streamlining of operations by Ningbo Phoenix.

In October 2004, Ningbo Phoenix acquired 50% interest in Ningbo Huadu Real Estate Co. Ltd. (“Ningbo Huadu”) which held a 60% interest in Jiaxing Shuimu Qinghua Real Estate Company Limited (“Jiaxing Shuimu”). Ningbo Huadu disposed of its entire interest in Jiaxing Shuimu in November 2004 at RMB14.8 million to the other 50% shareholder of Ningbo Huadu to realize the appreciation in value of its investment.

Directors’ view

In conducting the preliminary due diligence exercise on the operational, financial and legal aspects of APG Group prior to the entering into the Acquisitions, the Directors had taken into account of the disposal/deregistration of the Unconsolidated Subsidiaries and noted that their results would not be consolidated into the financial statements of APG, and in determining the consideration for the Acquisitions, the net asset value of the APG Group was prepared without the consolidation of the results of the Unconsolidated Subsidiaries.

The Directors have obtained a PRC legal opinion that such disposals have been completed and are legal and valid and the Directors, having reviewed the relevant sale and purchase agreements for such disposals, are not aware of any potential liabilities on the APG Group in relation to the Unconsolidated Subsidiaries. As such, the Directors consider that the non-consolidation of the results of the Unconsolidated Subsidiaries would not affect the evaluation of the Acquisitions.

The disposals of Ningbo Phoenix’s interests in Chengdu Shenrong, Beijing Shenyin, Tianjin Dongli and Jiaxing Shuimu were considered as related party transactions in the consolidated financial statements of APG. The Directors having considered the reasons for the disposals, consider that the considerations of such disposals were fair and reasonable.

The Directors also noted that Ningbo Chenggi Yuan Property Co. Ltd., a related party to APG, is indebted to the APG Group for RMB10.3 million being the balance of consideration for its acquisition of interests in Jiaxing Shuimu, such outstanding amount is not yet due, the Directors would closely monitor the repayment schedule thereof.

LETTER FROM THE BOARD

Prospect of the Enlarged Group

The Directors plan to focus on the automobile distribution and property development businesses of the Enlarged Group as the performance of the principal businesses of the Group has not been satisfactory in recent years.

Although the rapid growth of passenger vehicles sales has been slowing down, automobile and related industries remain the focus of the PRC market. The Directors noted that due to the reduction of car import duty under WTO commitments, more foreign manufacturers will be setting up manufacturing facilities in the PRC, the selection of automobiles available to consumers in the PRC would increase in the next few years. Coupled with the increase in income level, the demand for passenger cars and car ownership are expected to continue to rise.

According to the forecast of China Association of Automobile Manufacturers, a total of 5,600,000 units of motor vehicles will be manufactured this year. Given that the construction of the automall in Guangzhou of the Enlarged Group will be completed this year, the Directors are of the view that the turnover of the Enlarged Group will be increased significantly. However, the Directors also noted the conservative buying patterns of PRC consumers may unfavorably affect the profit margin of the Enlarged Group, to cope with this issue and the changing demand of the PRC automobile market, the Directors plan to reformulate the marketing strategy of the APG Group by concentrating on the distribution of latest models of motor vehicles so as to stimulate buying interest to increase turnover.

On the other hand, investment scale in real estate industry in the PRC has exceeded RMB1 trillion in 2003 and remains a major industry in the Chinese national economy. Given that the PRC recorded significant economic growth in recent years, the Directors believe that the trend of economic growth will continue. The high demand for real estate in the PRC is not limited to major cities like Beijing or Shanghai, Ningbo is also a city recorded significant economic growth in recent years. The Directors are of the view that the Enlarged Group's participation in property development industry would bring reasonable return to the Enlarged Group in the long run. Currently, the major property project for the Enlarged Group is Huadu Apartments in Ningbo which has an estimated total gross floor area of approximately 15,660.7 square meters and will be launched to the market for sale by the end of 2005 or in 2006.

Apart from the Acquisitions, the Directors have no imminent plan for any material investments, acquisitions or disposal of capital assets for the current financial year. However, the Enlarged Group will continue to reinforce its financial position so that it would be fully prepared to seize suitable investment opportunities when they arise.

THE SGM

The Acquisitions are subject to the approval of the Shareholder at the SGM. A notice of the SGM to be convened and held at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong on Monday, 18 July 2005 at 9:30 a.m. is set out on pages 187 and 188 of this circular with the relevant resolutions to be proposed to the Shareholders to consider and, if thought fit, approve, among others, the Acquisitions. No Shareholder is required to abstain from voting in the SGM.

LETTER FROM THE BOARD

A form of proxy for use at the SGM is enclosed. Whether or not you are able to attend the meeting, please complete the accompany form of proxy in accordance with the instructions printed thereon and return the same to the principal place of business in Hong Kong of the Company at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong not later than 9:30 a.m. on Saturday, 16 July 2005 or, in case of any adjournment, not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting should you so wish.

PROCEDURE TO DEMAND POLL

Pursuant to Bye-law 66 of the Bye-laws of the Company, a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all Shareholders having the right to vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

RECOMMENDATION

The Directors (including all the independent non-executive Directors) are of the view that the terms of the 1st Acquisition Agreement and 2nd Acquisition Agreements are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Accordingly, the Directors (including all the independent non-executive Directors) recommend the Shareholders to vote in favour of the resolutions to be proposed at the SGM.

Your attention is also drawn to the additional information set out in the appendices to this circular.

By order of the Board
Compass Pacific Holdings Limited
Law Wing Tak Jack
Director

- (A) The following is a summary of the financial information of the Group extracted from the audited financial statements of the Group for the three financial years ended 31 December 2004. The financial statements of the Group have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants and the auditors had not issued any qualified or modified opinion on the financial statements.

CONSOLIDATED INCOME STATEMENT

	Year ended 31 December		
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover	6,758	17,265	15,445
Cost of sales	(5,382)	(14,045)	(8,382)
Gross profit	1,376	3,220	7,063
Other revenue	2,283	1,261	2,524
Operating expenses	(48,016)	(56,584)	(68,558)
Finance cost	—	—	(66)
Loss before taxation	(44,357)	(52,103)	(59,037)
Taxation	—	—	—
Loss before minority interests	(44,357)	(52,103)	(59,037)
Minority interests	3,442	703	601
Loss attributable to shareholders	<u>(40,915)</u>	<u>(51,400)</u>	<u>(58,436)</u>
Loss per share – basic	<u>(2.16) cents</u>	<u>(3.92) cents</u>	<u>(4.62) cents</u>
Loss per share – diluted	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET*As at 31 December*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14,249	24,723	23,710
Long term investment	21,423	–	–
Rental, utilities and other deposits	650	988	710
Certificates of deposit	–	–	1,000
Other loan receivables	2,259	1,246	–
	<u>38,581</u>	<u>26,957</u>	<u>25,420</u>
Current assets			
Inventories	71	167	721
Land held for resale	1,636	–	–
Trade receivables	–	127	3,317
Other receivables	4,747	5,706	6,246
Prepayments and deposits	9,787	10,931	986
Loan and interest receivables from an investee company	44,227	–	–
Amount due from a related company	1,447	–	–
Pledged bank deposits	700	700	–
Cash and cash equivalents	31,828	132,915	124,309
	<u>94,443</u>	<u>150,546</u>	<u>135,579</u>
Current liabilities			
Trade payables	701	624	598
Accruals and other payables	13,807	13,941	9,496
Amount due to a related company	–	65	1,076
	<u>14,508</u>	<u>14,630</u>	<u>11,170</u>
Net current assets	<u>79,935</u>	<u>135,916</u>	<u>124,409</u>
Total assets less current liabilities	<u>118,516</u>	<u>162,873</u>	<u>149,829</u>
Minority interests	<u>12,059</u>	<u>15,501</u>	<u>16,204</u>
Net assets	<u><u>106,457</u></u>	<u><u>147,372</u></u>	<u><u>133,625</u></u>
CAPITAL AND RESERVES			
Share capital	189,545	189,545	126,363
Reserves	(83,088)	(42,173)	7,262
Shareholders' funds	<u><u>106,457</u></u>	<u><u>147,372</u></u>	<u><u>133,625</u></u>

(B) The following is the reproduction of the full text of the audited financial statements of the Company contained in pages 21 to 53 of the Company’s 2004 annual report. References to page number and note number refer to the page number and note number in the 2004 annual report.

CONSOLIDATED INCOME STATEMENT

For the year ended 31st December, 2004

		2004	2003
	Notes	HK\$'000	HK\$'000
TURNOVER	4	6,758	17,265
Cost of sales		(5,382)	(14,045)
Gross profit		1,376	3,220
Other revenue	4	2,283	1,261
Operating expenses		(48,016)	(56,584)
Loss before taxation	5	(44,357)	(52,103)
Taxation	7	–	–
Loss before minority interests		(44,357)	(52,103)
Minority interests		3,442	703
Loss attributable to shareholders	8	(40,915)	(51,400)
Loss per share – basic	10	(2.16) cents	(3.92) cents
Loss per share – diluted	10	N/A	N/A

CONSOLIDATED BALANCE SHEET*As at 31st December, 2004*

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	14,249	24,723
Long term investment	13	21,423	–
Rental, utilities and other deposits		650	988
Other loan receivables	14	2,259	1,246
		<u>38,581</u>	<u>26,957</u>
Current assets			
Inventories	15	71	167
Land held for resale	16	1,636	–
Trade receivables	17	–	127
Other receivables	14, 18	4,747	5,706
Prepayments and deposits		10,573	10,931
Loan and interest receivables from an investee company	13	44,227	–
Amount due from a connected party	21	661	–
Pledged bank deposits	27	700	700
Cash and cash equivalents	19	31,828	132,915
		<u>94,443</u>	<u>150,546</u>
Current liabilities			
Trade payables	20	701	624
Accruals and other payables		13,807	13,941
Amount due to a connected party	21	–	65
		<u>14,508</u>	<u>14,630</u>
Net current assets		<u>79,935</u>	<u>135,916</u>
Total assets less current liabilities		118,516	162,873
Minority interests		<u>12,059</u>	<u>15,501</u>
Net assets		<u><u>106,457</u></u>	<u><u>147,372</u></u>
CAPITAL AND RESERVES			
Share capital	22	189,545	189,545
Reserves	24	<u>(83,088)</u>	<u>(42,173)</u>
Shareholders' funds		<u><u>106,457</u></u>	<u><u>147,372</u></u>

BALANCE SHEET*As at 31st December, 2004*

		2004	2003
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	12	138,698	149,506
Deposits		324	324
		139,022	149,830
Current assets			
Prepayments and deposits		428	190
Other receivables	18	3,060	2,846
Cash and cash equivalents		4,093	14,040
		7,581	17,076
Current liabilities			
Accruals and other payables		10,094	9,735
Amounts due to subsidiaries	12	822	3,538
		10,916	13,273
Net current (liabilities)/assets		(3,335)	3,803
Total assets less current liabilities/Net assets		<u>135,687</u>	<u>153,633</u>
CAPITAL AND RESERVES			
Share capital	22	189,545	189,545
Reserves	24	(53,858)	(35,912)
Shareholders' funds		<u>135,687</u>	<u>153,633</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2004

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	126,363	260,592	(2,332)	(250,998)	133,625
Loss for the year	–	–	–	(51,400)	(51,400)
Exchange difference	–	–	28	–	28
Issue of share capital	63,182	1,937	–	–	65,119
At 31st December, 2003 and 1st January, 2004	189,545	262,529	(2,304)	(302,398)	147,372
Loss for the year	–	–	–	(40,915)	(40,915)
At 31st December, 2004	<u>189,545</u>	<u>262,529</u>	<u>(2,304)</u>	<u>(343,313)</u>	<u>106,457</u>

CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31st December, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash flows from operating activities			
Loss before taxation		(44,357)	(52,103)
Adjustments for:			
Depreciation of property, plant and equipment		4,097	4,776
(Gain)/Loss on disposal of property, plant and equipment		(15)	43
Loss on write off of property, plant and equipment		5,644	–
Impairment of property, plant and equipment		1,506	1,236
Revaluation of investment property		–	(70)
Interest income		(1,551)	(1,172)
Provision for doubtful debts		354	3,662
Operating loss before working capital changes		(34,322)	(43,628)
Decrease/(Increase) in other receivables, prepayments and deposits		1,589	(12,679)
Decrease in inventories		96	554
Decrease/(Increase) in trade receivables		127	(127)
(Decrease)/Increase in amount due from/to a connected party		(726)	2,306
Increase in trade payables		77	26
(Decrease)/Increase in accruals and other payables		(134)	4,445
Net cash used in operating activities		(33,293)	(49,103)
Cash flows from investing activities			
Purchase of property, plant and equipment	30	(2,781)	(7,424)
Proceeds from sales of property, plant and equipment	30	2,023	426
Decrease in certificates of deposit		–	1,000
Acquisition of land held for resale		(1,636)	–
Interest received		718	818
Increase in other loan receivables	14	(1,071)	(1,558)
Acquisition of long term investment	13	(21,423)	–
Increase in loan receivable from an investee company	13	(43,624)	–
Net cash used in investing activities		(67,794)	(6,738)
Cash flows from financing activities			
Proceeds from issuance of share capital		–	65,119
Increase in pledged bank deposits		–	(700)
Net cash generated from financing activities		–	64,419
Net (decrease)/increase in cash and cash equivalents		(101,087)	8,578
Cash and cash equivalents at 1st January, 2004		132,915	124,309
Effect of exchange rate fluctuation		–	28
Cash and cash equivalents at 31st December, 2004		31,828	132,915

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December, 2004

1. GENERAL INFORMATION

Compass Pacific Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company is an investment holding company and its subsidiaries (together with the Company referred to as the “Group”) are mainly engaged in the operation of indoor game centres, manufacture and sale of automobile axles in the People’s Republic of China (the “PRC”) and investment holding. The directors consider Sun East LLC, a company incorporated in the United States of America (the “USA”), to be the ultimate holding company.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation

The financial statements on pages 21 to 53 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The financial statements are prepared under the historical cost convention as modified by the revaluation of investment property.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. All material intercompany transactions and balances within the Group are eliminated on consolidation.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group’s share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

Minority interests represent the interest of outside shareholders in the operating results and net assets of subsidiaries.

(c) Joint ventures

The Group’s joint ventures in the PRC are in the form of Sino-foreign co-operative or Sino-foreign equity joint ventures. For Sino-foreign co-operative joint ventures, the partners’ profit-sharing ratios and share of net assets upon the expiration of the joint venture terms may not be in proportion to their equity ratios but are as defined in the respective joint venture contracts. For Sino-foreign equity joint ventures, the partners’ profit-sharing ratios and share of net assets upon the expiration of the joint venture years are in proportion to their equity contribution ratios.

The Group’s joint ventures are accounted for as subsidiaries as the Company has the power to govern the financial and operating policies of the joint ventures so as to benefit from their activities.

(d) **Subsidiaries**

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. In the Company’s balance sheet subsidiaries are carried at cost less impairment losses. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

(e) **Goodwill**

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group’s share of the fair value of the identifiable assets and liabilities acquired. In respect of subsidiaries, goodwill is amortised to the consolidated income statement on a straight line basis over its estimated useful life. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

All goodwill of the Group arisen from transactions completed prior to 1st January, 2002 was eliminated directly against reserves and reduced by impairment losses.

(f) **Property, plant and equipment**

(i) *Depreciation*

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Land use rights and buildings	Over the terms of the leases or 50 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%
Motor vehicles	20% to 25%

(ii) *Measurement bases*

Property, plant and equipment other than investment properties are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the assets, is included in the income statement.

(g) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential.

Investment property is stated at open market value determined annually by independent valuers.

Increases in the carrying amount of investment property are credited to the investment property revaluation reserve; decreases are first offset against increases on earlier valuations on a portfolio basis and thereafter are charged to operating results. A revaluation increase is recognised as income to the extent that it reverses revaluation decrease previously recognised as an expense.

No depreciation is provided for investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

Upon disposal, the revaluation surpluses relating to the investment property disposed of are released from the investment property reserve and charged to the income statement.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials computed using the first-in-first-out basis and, where applicable, direct labour and those overheads that have been incurred in bringing the inventories to their present locations and conditions. Net realisable value is calculated as the actual or estimated selling price less all further costs of completion and the estimated costs necessary to make the sale.

(i) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any other banks or financial institutions. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(j) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation 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 of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

(i) Games, rides and other amusement facilities

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

(ii) *Sale of automobile axles*

Revenue from the sale of automobile axles is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer.

(iii) *Interest income*

Interest income is recognised on a time proportion basis on the principal outstanding and at the interest rates applicable.

(l) Research and development expenditures

Research and development expenditures are charged to the income statement in the year incurred except for development costs which satisfy the following criteria:

- (i) the product or process is clearly defined and the costs are separately identified and measured reliably;
- (ii) the technical feasibility of the product or process is demonstrated;
- (iii) the product or process will be sold or used in-house;
- (iv) a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- (v) adequate technical, financial and other resources required for completion of the product or process are available.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the capitalised development costs.

Capitalised development costs are stated at cost less accumulated amortisation and impairment losses.

(m) Income tax

Income tax for the year comprises current and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Foreign currencies

(i) Foreign currency transactions

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

(ii) Foreign subsidiaries

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and their income statements are translated at the average rates for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(o) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

(p) Employee benefits

(i) Employee entitlements

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.

(ii) Pension obligations

The Group's pension obligations are of defined contribution in nature. Contributions are charged as expense in the income statement as incurred.

(q) Impairment of assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) *Calculation of recoverable amount*

The recoverable amount of an asset is the greater of its net selling price 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 assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) *Reversals of impairment*

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed 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.

(r) **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.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities.

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

(s) **Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and 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. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

(t) **Investments**

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

Provisions against the carrying value of equity securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(u) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(v) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January, 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31st December, 2004.

3. SEGMENT INFORMATION**(a) Primary reporting format – business segments**

	Operation of indoor game centres		Manufacture and sale of automobile axles		Investment holding and others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	1,659	4,680	5,099	12,585	–	–	6,758	17,265
Results								
Segment results	(1,405)	(6,088)	(8,176)	(1,370)	(34,776)	(44,645)	(44,357)	(52,103)
Taxation							–	–
Minority interests							3,442	703
							(40,915)	(51,400)
Assets and liabilities								
Segment assets	951	2,378	15,150	23,841	116,923	151,284	133,024	177,503
Segment liabilities	3,694	3,816	339	853	10,475	9,961	14,508	14,630
Other information								
Capital expenditure	45	518	–	3,669	2,861	3,237	2,906	7,424
Depreciation	590	1,450	1,021	1,147	2,486	2,179	4,097	4,776
Impairment	368	1,236	1,138	–	–	–	1,506	1,236
Loss on write off of property, plant and equipment	–	–	5,644	–	–	–	5,644	–
Provision for doubtful debts	–	662	–	–	354	3,000	354	3,662
Surplus on revaluation of investment property	–	–	–	–	–	(70)	–	(70)

(b) Secondary reporting format – geographical segments

The Group’s activities are conducted in Hong Kong, the PRC and the USA. An analysis by geographical segment is as follows:

	Hong Kong		The PRC (excluding Hong Kong)		The USA		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover								
Sales to external customers	–	–	6,758	17,265	–	–	6,758	17,265
Segment assets	18,050	30,239	16,101	26,219	98,873	121,045	133,024	177,503
Capital expenditure	2,796	14	45	4,187	65	3,223	2,906	7,424

4. TURNOVER AND REVENUE

	2004	2003
	HK\$'000	HK\$'000
Turnover:		
– Revenues from games, rides and other amusement facilities	1,659	4,680
– Sales of automobile axles	5,099	12,585
	6,758	17,265
Other revenue:		
– Bank interest income	568	818
– Other interest income	983	354
– Surplus on revaluation of investment property	–	70
– Miscellaneous	732	19
	2,283	1,261
Total turnover and revenue	9,041	18,526

5. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Staff costs (including directors' emoluments)	22,701	25,870
Auditors' remuneration	340	420
Depreciation of property, plant and equipment	4,097	4,776
Impairment of property, plant and equipment	1,506	1,236
Provision for doubtful debts	354	3,662
Loss on write off of property, plant and equipment	5,644	–
Loss on disposal of property, plant and equipment	–	43
Cost of inventories recognised as expenses	5,121	12,878
Research and development costs	–	3,479
Operating lease rentals in respect of rented premises	2,149	3,256
Pension scheme contributions:		
– Hong Kong	102	95
– PRC	184	423
and crediting:		
Gain on disposal of property, plant and equipment	<u>15</u>	<u>–</u>

6. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS**(a) Directors' emoluments**

Remunerations of the directors disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Independent non-executive directors		
Fees	176	156
Executive directors		
Fees	488	567
Salaries, allowances and benefits in kind	11,157	10,417
Pension scheme contributions	<u>24</u>	<u>24</u>
	<u>11,669</u>	<u>11,008</u>
Total	<u><u>11,845</u></u>	<u><u>11,164</u></u>

The emoluments of the directors represent the amounts paid to or receivable by the directors in the respective financial year and exclude the benefits derived from or to be derived from the share options granted under the 2003 Scheme as detailed in note 23.

As at 31 December 2004, directors' fees payable to independent non-executive directors amounted to HK\$374,000 (2003: HK\$276,000) are included in accruals and other payables.

The emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Emolument bands:		
Up to HK\$1,000,000	5	12
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,000,001 to HK\$2,500,000	2	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	1
	<u>9</u>	<u>15</u>

No director waived the right to receive emoluments during the year.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2003: four) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one (2003: one) individual during the year are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries, allowances and benefits in kind	935	781
Pension scheme contributions	<u>–</u>	<u>–</u>
	<u>935</u>	<u>781</u>

Benefits in kind represent the estimated monetary value of accommodation and other benefits provided to the directors and employees of the Group.

The emoluments of the remaining one (2003: one) individual fell within the following band:

	Number	
	2004	2003
Emolument band		
Up to HK\$1,000,000	<u>1</u>	<u>1</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and employees) as an inducement to join the Group or as compensation for loss of office.

7. TAXATION

No provision for Hong Kong profits tax or other income tax has been made in the financial statements as the companies within the Group had no assessable profits for the year in the respective jurisdictions in which the entities operate.

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Loss before taxation	<u>(44,357)</u>	<u>(52,103)</u>
Tax on loss before taxation, calculated at the rates applicable to losses in the tax jurisdiction concerned	(11,610)	(12,727)
Tax effect of non-deductible expenses	3,167	4,924
Tax effect of non-taxable revenues	(8)	(33)
Tax losses not recognised as deferred tax asset	8,256	7,769
Tax effect of prior year's tax losses utilised this year	(13)	–
Other temporary differences not recognised	<u>208</u>	<u>67</u>
Actual tax expense	<u>–</u>	<u>–</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.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders includes a loss of HK\$17,946,000 (2003: HK\$49,023,000) which has been dealt with in the financial statements of the Company.

9. DIVIDENDS

The directors do not recommend the payment of a dividend for the year ended 31st December, 2004 (2003: Nil) and the Company did not pay any interim dividend during the year.

10. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders of HK\$40,915,000 (2003: HK\$51,400,000) and on the weighted average of 1,895,451,000 (2003: 1,310,371,148) ordinary shares in issue during the year.

Diluted loss per share for the year ended 31st December, 2004 was not presented because the impact of the exercise of the share options was anti-dilutive.

11. PROPERTY, PLANT AND EQUIPMENT

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

	Investment property HK\$'000	Land use rights and buildings HK\$'000	Leasehold improvements, fixture and fittings HK\$'000	Furniture and equipment HK\$'000	Game equipment HK\$'000	Machinery HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation:								
At 1st January, 2004	1,620	7,567	16,430	3,621	58,337	8,923	11,044	107,542
Additions	–	–	96	72	–	–	2,738	2,906
Disposals	(1,620)	–	–	–	–	–	(783)	(2,403)
Write off	–	(7,567)	–	–	–	–	–	(7,567)
At 31st December, 2004	–	–	16,526	3,693	58,337	8,923	12,999	100,478
Accumulated depreciation and impairment losses:								
At 1st January, 2004	–	1,734	15,015	1,810	57,692	2,648	3,920	82,819
Depreciation charge for the year	–	189	553	328	328	777	1,922	4,097
Disposals	–	–	–	–	–	–	(270)	(270)
Write off	–	(1,923)	–	–	–	–	–	(1,923)
Impairment	–	–	–	5	161	1,138	202	1,506
At 31st December, 2004	–	–	15,568	2,143	58,181	4,563	5,774	86,229
Net book value:								
At 31st December, 2004	–	–	958	1,550	156	4,360	7,225	14,249
At 31st December, 2003	1,620	5,833	1,415	1,811	645	6,275	7,124	24,723
The analysis of cost or valuation of the above assets as at 31st December, 2004 is as follows:								
At cost	–	–	16,526	3,693	58,337	8,923	12,999	100,478
The analysis of cost or valuation of the above assets as at 31st December, 2003 is as follows:								
At cost	–	7,567	16,430	3,621	58,337	8,923	11,044	105,922
At professional valuation	1,620	–	–	–	–	–	–	1,620
	1,620	7,567	16,430	3,621	58,337	8,923	11,044	107,542

The land use rights were related to land located in the PRC for the operation of the manufacture and sale of automobile axles where no individual land ownership rights existed. The amount has been fully written off as the land was reclaimed by the PRC local government for redevelopment use. The impairment for the year mainly included certain plant and machineries impaired as a result of the relocation of the operation to a new site.

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

12. INTERESTS IN SUBSIDIARIES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	227,220	227,220
Less: Provision for impairment losses	(94,802)	(94,802)
	132,418	132,418
Amounts due from subsidiaries	147,811	158,619
Less: Provision for doubtful debts	(141,531)	(141,531)
	6,280	17,088
	138,698	149,506
	2004 HK\$'000	2003 HK\$'000
Amount due to subsidiaries	822	3,538

The amounts due from/to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. The directors consider the amounts due from subsidiaries are not repayable within one year.

The directors are of the opinion that the underlying value of the subsidiaries is not less than the carrying amount of the interests in subsidiaries as at 31st December, 2004.

Particulars of the Company’s subsidiaries as at 31st December, 2004 are as follows:

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
American Compass Inc.	The USA	Ordinary US\$ 17,000,000	100	–	Investment holding
Bluebell Fields Limited	The British Virgin Islands	Ordinary US\$ 1	100	–	Inactive
Bright Skies Limited	The British Virgin Islands	Ordinary US\$ 1	100	–	Investment holding
Compass Pacific Capital Limited (圓通金融有限公司)	Hong Kong	Ordinary HK\$ 2	100	–	Investment holding
Dawes Investments Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Hemsby Investments Limited	The British Virgin Islands	Ordinary US\$ 200	100	–	Investment holding

APPENDIX I

FINANCIAL INFORMATION OF THE GROUP

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
Kristal Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Liberty Capital Limited (立寶金融有限公司)	Hong Kong	Ordinary HK\$ 1	–	100	Inactive
Liberty Investment Holdings Limited (立寶投資控股有限公司)	Hong Kong	Ordinary HK\$ 10,000	–	100	Inactive
Nara Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Upward Trend Profits Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Investment holding
Whimsy International Trading Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Yaohan Whimsy International Limited	The British Virgin Islands	Ordinary US\$ 1	–	100	Inactive
Asian Rose Holdings Limited	Hong Kong	Ordinary HK\$ 2	–	100	Property holding and leasing
Global Gold Trading Limited	Hong Kong	Ordinary HK\$ 2	–	100	Inactive
Parkwell (Hong Kong) Ltd. (百宏(香港)有限公司)	Hong Kong	Ordinary HK\$ 2	100	–	Leasing
United Kam Wah Development Limited (中港金華發展有限公司)	Hong Kong	Ordinary HK\$ 2	–	100	Investment holding
Yaohan Whimsy Co., Limited	Hong Kong	Ordinary HK\$1,000 Ψ Non-voting deferred HK\$1,000	–	100	Investment holding
*成都歡樂天地有限公司 (Chengdu Happy World Co., Limited)	Chengdu, the PRC	RMB 10,000,000	–	97	Ceased operations
#河南歡樂天地兒童遊樂有限公司 (Henan Whimsy Amusement Company Limited)	Henan, the PRC	US\$ 2,000,000	–	100	Operation of indoor entertainment centre
*上海歡樂天地兒童遊樂有限公司 (Shanghai Whimsy Amusement Co., Limited)	Shanghai, the PRC	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.)	Shenyang, the PRC	RMB 30,000,000	–	51	Manufacture of automobile axles
*蘇州運時家庭電子娛樂有限公司 (Suzhou Whimsy Family Electronic Recreation Co., Limited)	Suzhou, the PRC	US\$ 1,050,000	–	95	Ceased operations

Name	Place of incorporation/ principal operations	Issued and paid up share capital/ registered capital	Proportion of nominal value of issued share capital/registered capital held by the Company		Principal activities
			Directly %	Indirectly %	
*無錫歡樂天地遊樂有限公司 (Wuxi Whimsy Amusement Co., Limited)	Wuxi, the PRC	US\$ 2,720,000	–	95	Ceased operations
Whimsy Japan Company Limited	Japan	Ordinary JPY 10,000,000	–	100	Inactive
Whimsy USA, Inc.	The USA	Ordinary US\$ 10	100	–	Inactive
* These subsidiaries are Sino-foreign co-operative joint ventures.					
Δ This subsidiary is a Sino-foreign equity joint venture.					
# This subsidiary is a wholly foreign owned enterprise.					
y 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.					

13. LONG TERM INVESTMENT

	The Group	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments in American Phoenix Group, Inc. (“APG”), at cost	21,423	–

At 31st December, 2004, the particulars of APG are as follows:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
American Phoenix Group, Inc.	USA	Investment holding	Common stock US\$ 11,038,599	9.29%

On 20th September, 2004 the Group entered into a loan agreement with APG and made available to APG a term loan facility of HK\$43,624,000 (US\$5.6 million). The loan bears interest at 5% per annum and was originally scheduled to be fully repayable on 24th December, 2004. The loan is secured by a share mortgage of 25% equity interest of a subsidiary of APG.

	The Group	
	2004 HK\$'000	2003 HK\$'000
Loan receivable, secured	43,624	–
Interest receivables	603	–
	<u>44,227</u>	<u>–</u>

On 18th March, 2005, the Group entered into an agreement to acquired a further interest in APG. The consideration will be satisfied by setting off the above loan receivable from APG. For details please refer to the post balance sheet events disclosed in note 29.

14. OTHER LOAN RECEIVABLES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Other loan receivables – unsecured	2,629	1,558
Less: Current portion due within on year included in other receivables under current assets	<u>(370)</u>	<u>(312)</u>
Non-current portion under non-current assets	<u>2,259</u>	<u>1,246</u>

The above balance included an unsecured loan made to a member of the senior management of the Group. The loan bears interest at one year LIBOR (subject to adjustment annually in October) and will be repayable by ten instalments in five years.

15. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Plush toys – at cost	48	167
Spare parts and other consumables – at cost	<u>145</u>	<u>–</u>
	193	167
Less: provision	<u>(122)</u>	<u>–</u>
	<u>71</u>	<u>167</u>

As at 31st December, 2004, the above inventories include HK\$71,000 (2003: Nil) which are carried at net realisable value.

16. LAND FOR RESALE**The Group**

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

Freehold land for resale outside Hong Kong, at cost	<u>1,636</u>	<u>—</u>
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17. TRADE RECEIVABLES

The balances resulted from the sales of automobile axles, which were on an average credit period of 90 days.

The aging analysis of the trade receivables of the Group as at 31st December, 2004 is as follows:

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

Over 90 days	<u>—</u>	<u>127</u>
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18. OTHER RECEIVABLES**The Group**

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

The Company

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

Other receivables	11,175	11,780	3,060	2,846
Less: Provision for doubtful debts	<u>(6,428)</u>	<u>(6,074)</u>	<u>—</u>	<u>—</u>
	<u>4,747</u>	<u>5,706</u>	<u>3,060</u>	<u>2,846</u>

19. CASH AND CASH EQUIVALENTS

As at 31st December, 2004, cash and cash equivalents of the Group denominated in Chinese Renminbi (“RMB”) amounted to approximately HK\$237,000 (2003: HK\$1,002,000). 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.

20. TRADE PAYABLES

The aging analysis of the trade payables of the Group as at 31st December, 2004 is as follows:

2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>

0 – 90 days	33	102
Over 90 days	<u>668</u>	<u>522</u>
	<u>701</u>	<u>624</u>

21. CONNECTED PARTY TRANSACTIONS

- (a) Amount due from/(to) a connected party is unsecured, non-interest bearing and repayable on demand and mainly arose from transaction stated in note 21(b) below.
- (b) During the year, the Group entered into the following transactions with the connected party:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Sales to a connected party	5,100	12,585
Purchase from a connected party	<u>5,019</u>	<u>12,367</u>

The above transactions were carried out after negotiations between the Group and the connected party in the ordinary course of business and on normal commercial terms as determined by the directors.

The above connected party is the holding company of the minority joint venture partner of a subsidiary of the Company.

22. SHARE CAPITAL

	2004		2003	
	Number of shares	Amount <i>HK\$'000</i>	Number of shares	Amount <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.10 each	3,000,000,000	300,000	3,000,000,000	300,000
<i>Issued and fully paid:</i>				
At 1st January	1,895,451,000	189,545	1,263,634,000	126,363
Increase during year	<u>—</u>	<u>—</u>	<u>631,817,000</u>	<u>63,182</u>
At 31st December	<u>1,895,451,000</u>	<u>189,545</u>	<u>1,895,451,000</u>	<u>189,545</u>

Pursuant to an open offer of new shares to qualifying shareholders on 13th November, 2003, the Company issued 631,817,000 ordinary shares with a nominal value of HK\$0.10 each on 5th December, 2003, at HK\$0.106 per share for a total cash consideration, before expenses, of HK\$66,972,602. These shares rank pari passu in all respects with the then existing issued shares of the Company.

23. SHARE OPTIONS

On 12th June, 2003, the share option scheme adopted by the Company on 15th March, 1995 (the “1995 Scheme”) was terminated and a new share option scheme (the “2003 Scheme”) was adopted by the Company to comply with the new amendments to the Listing Rules in respect of share option schemes of a listed company.

The 2003 Scheme became effective on 12th June, 2003 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at the date of adoption of the 2003 Share Option Scheme. The offer of a grant may be accepted upon payment of HK\$1 per acceptance. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from

the date of grant of the share options. The exercise price will be determined by the Board, but shall not be less than the highest of (i) the closing price of the Company’s shares as stated in the Stock Exchange’s daily quotations sheet for trade in one or more board lots of shares on the date of offer for grant which must be a business day; (ii) the average closing price of the Company’s share as stated in the Stock Exchange’s daily quotations sheets for trade in one or more board lots of shares for the five business days immediately preceding the date of the offer for grant which must be a business day; and (iii) the nominal value of the Company’s shares.

The particulars in relation to share option schemes of the Company are as follows:.

Name	Number of share options			At 31st December, 2004	Date of grant of share options	Exercise period of share options	Exercise price per share <i>HK\$</i>
	At 1st January, 2004	Granted during the year	Cancelled during the year				
Directors							
Mr. Yung Yeung	10,000,000	–	–	10,000,000	16th February, 2000	16th February, 2000 to 15th February, 2010	0.690
	21,570,000	–	–	21,570,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
Mr. Jun Li	5,400,000	–	–	5,400,000	2nd November, 2000	2 November 2000 to 1st November, 2010	0.382
	–	13,540,000	–	13,540,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Mr. Chunhua Huang	5,400,000	–	–	5,400,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
	–	13,540,000	–	13,540,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Mr. Yuwen Sun	–	18,940,000	–	18,940,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
Ms. Chizuko Kubo	–	5,000,000	–	5,000,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	<u>42,370,000</u>	<u>51,020,000</u>	<u>–</u>	<u>93,390,000</u>			
Employees							
In aggregate	4,800,000	–	–	4,800,000	16th February, 2000	16th February, 2000 to 15th February, 2010	0.690
	9,400,000	–	–	9,400,000	2nd November, 2000	2nd November, 2000 to 1st November, 2010	0.382
	–	37,800,000	19,028,000	18,772,000	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	<u>14,200,000</u>	<u>37,800,000</u>	<u>19,028,000</u>	<u>32,972,000</u>			
Other eligible persons							
In aggregate	–	44,000,000	44,000,000	–	26th January, 2004	26th January, 2004 to 25th January, 2014	0.160
	<u>56,570,000</u>	<u>132,820,000</u>	<u>63,028,000</u>	<u>126,362,000</u>			

24. RESERVES

The Group

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 31st December, 2004	<u>262,529</u>	<u>(2,304)</u>	<u>(343,313)</u>	<u>(83,088)</u>
At 31st December, 2003	<u>262,529</u>	<u>(2,304)</u>	<u>(302,398)</u>	<u>(42,173)</u>

The Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st January, 2003	260,592	94,601	(344,019)	11,174
Loss for the year	–	–	(49,023)	(49,023)
Issue of share capital	<u>1,937</u>	<u>–</u>	<u>–</u>	<u>1,937</u>
At 31st December, 2003 and 1st January, 2004	262,529	94,601	(393,042)	(35,912)
Loss for the year	<u>–</u>	<u>–</u>	<u>(17,946)</u>	<u>(17,946)</u>
At 31st December, 2004	<u>262,529</u>	<u>94,601</u>	<u>(410,988)</u>	<u>(53,858)</u>

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1995.

Under the applicable laws of Bermuda, the contributed surplus account of a company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued capital and share premium.

The translation reserve has been established and dealt with in accordance with the accounting policy adopted for foreign currency translation.

The directors consider that the Company had no reserves available for distribution to shareholders as at 31st December, 2004 (2003: Nil).

25. COMMITMENTS AND CONTINGENCY

(a) Research and development commitments

On 3rd January, 2001 (the “Effective Date”), the Company entered into an agreement with the Trustees of Columbia University in the City of New York (“Columbia”), pursuant to which Columbia was to conduct research in the field of antigen/antibody microarrays for use in immunological diagnostic and functional genomic applications. The Company would have exclusive rights of the results of the said research. In exchange, the Company was to provide financial support for the said research.

The Company had the right to exercise early termination in the first eighteen months after the Effective Date, upon six months written notice to Columbia.

In year 2003, the Company decided to terminate its contribution to the above research project in view of the absence of foreseeable future revenue to be generated to the Group and Columbia failed to provide the Group with a written report summarizing research activities. No provision has been made regarding contribution payable to Columbia for the year amounting to HK\$3,592,000.

Capital commitments in respect of the above agreement outstanding as at 31st December, 2004 not provided for in the financial statements of the Group and the Company are summarised as follows:

	The Group and the Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	<u>7,366</u>	<u>7,366</u>

(b) Capital commitments

As at 31st December, 2004, the Group had the following commitments for capital expenditure in respect of manufacture and sale of automobile axles:

	The Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracted for	<u>26</u>	<u>1,702</u>

The Company had no capital commitment as at 31st December, 2004 (2003: NIL).

(c) Lease commitments

As at 31st December, 2004, the total future minimum lease payments payable under non-cancellable operating leases in respect of rented premises of the Group are as follows:

	The Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	1,866	2,073
After one year but within five years	<u>3,102</u>	<u>4,387</u>
	<u>4,968</u>	<u>6,460</u>

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

The Company had no lease commitment as at 31st December, 2004 (2003: NIL).

(d) Contingency

The Group provides for potential individual income taxes, related fines and penalties for its employees working in the PRC based on management’s best estimate. The management believes that the possibility for additional fines and penalties that may be payable by the Group is remote.

26. RETIREMENT BENEFITS SCHEME

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 31st December, 2004, the Group’s contributions were approximately HK\$286,000 (2003: HK\$518,000). There was no (2003: 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.

27. BANKING FACILITIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Other banking facilities	500	500

As at 31st December, 2004, a subsidiary of the Company had aggregate banking facilities of HK\$500,000 (2003: HK\$500,000), all of them remained unutilised. The facilities are secured by bank deposits of HK\$700,000 (2003: HK\$700,000).

28. LEGAL PROCEEDINGS

On 1st December, 2003, the PRC joint venture partner of Shanghai Whimsy Amusement Co., Limited (“Shanghai JV”), a subsidiary of the Company, commenced proceedings against Shanghai JV alleging claims for guaranteed profits of approximately HK\$454,000. A provision has been made in the financial statements in respect of such guaranteed profits to the PRC joint venture partner.

On 4th November, 2004, the PRC joint venture partner of Wuxi Whimsy Amusement Co., Limited (“Wuxi JV”), a subsidiary of the Company, 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 directors, after taking legal advice, are contesting this claim although at this stage the outcome of this claim cannot be determined with reasonable certainty. No provision has been made in the financial statements in respect of such claim accordingly.

29. POST BALANCE SHEET EVENTS

On 11th March, 2005, American Compass Inc. (“ACI”), a subsidiary of the Company, entered into an Acquisition Agreement (the “1st Acquisition”) with American Phoenix Group, Inc. (“APG”), a company incorporated under the laws of the State of California, the United States of America with limited liability, whereby ACI has conditionally agreed to subscribe for the 35,569,384 new Class A common stocks of APG (“the Subscription Shares”). The Subscription Shares represent approximately 48.5% of the existing issued share capital of APG and approximately 32.66% of the enlarged share capital of APG upon completion of the 1st Acquisition. The consideration will be satisfied by setting off the loan of HK\$43,624,000 (US\$5.6 million) advanced by the Group to APG under the loan agreement dated 20th September, 2004.

On the same date, ACI entered into acquisition agreements with the legal and beneficial owners of the aggregate 55,875,144 Class A common stocks (the “Sale Shares”) in capital of APG (the “Vendors”) (the “2nd Acquisition”) pursuant to which ACI has conditionally agreed to purchase the Sale Shares at HK\$137,198,069 (US\$17,589,496). The Sale Shares represent 76.18% of the existing issued share capital of APG and 51.3% of the issued capital of APG immediately after completion of the 1st Acquisition. The consideration payable under the 2nd Acquisition will be satisfied by the issue of new shares by the Company at an issue price being the higher of HK\$0.25 and the average of the closing prices per share as quoted on the Stock Exchange for five trading days prior to the special general meeting of the Company to be convened for the purpose of considering and if thought fit, approving among other things, the Acquisitions.

30. MAJOR NON-CASH TRANSACTION

During the year, a subsidiary of the Company purchased a motor vehicle with a capital value of HK\$2,738,000 and received a trade-in discount of HK\$125,000 by disposing of a motor vehicle to the vendor.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements on pages 21 to 53 were approved by the board of directors on 28th April, 2005.

(C) INDEBTEDNESS OF THE GROUP

As at the close of business on 30 April 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had no outstanding bank borrowings.

Besides, save for provision for potential individual income taxes, related fines and penalties for its employees working in the PRC based on management’s best estimate. The management believes that the possibility for additional fines and penalties that may be payable by the Company is remote and has been disclosed in the annual report 2004 of the Company, the Group has no other contingent liabilities.

Save as disclosed herein and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, or other capital or bank overdrafts, loans or other similar indebtedness or acceptance of credits or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 30 April 2005.

The Directors are not aware of any material adverse changes in the Group’s indebtedness position or contingent liabilities since 30 April 2005.

(D) WORKING CAPITAL

After taking into account the Group’s existing cash and bank balances and the financial resources available, the Directors are of the opinion that the Group has sufficient working capital to satisfy its present requirements in the absence of unforeseen circumstances.

The following is the text of a report, prepared for the purpose of incorporating in this circular, received from the reporting accountants of APG Group, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

The Directors
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28 June 2005

Dear Sirs,

We set out below our report on the financial information relating to American Phoenix Group, Inc. ("APG") and its subsidiaries (hereinafter collectively referred to as "APG Group") for the period from 21 August 2002 (date of incorporation) to 31 December 2002 and the two years ended 31 December 2003 and 2004 (the "Relevant Period") (the "Financial Information") for inclusion in the circular of Compass Pacific Holdings Limited (the "Company") dated 28 June 2005 (the "Circular").

APG is a company incorporated in the State of California, the United States of America on 21 August 2002 with limited liability and principally engaged in investment holding. On 1 December 2003, APG entered into an agreement with Mr. Thomas E. Bongarzone (the "Transferor") to acquire the entire 100% interest in Star Western Holdings, LLC. ("Star Western"), a company incorporated under the laws of the State of Delaware, the United States of America. Pursuant to a supplemental agreement dated 31 December 2003, the acquisition of Star Western was completed effective on 1 January 2004. Star Western is an investment holding company. Through its subsidiaries, APG Group operates dealerships in motor vehicles in the People's Republic of China (the "PRC") and auto malls in Guangzhou, the PRC, and undertakes property development business.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, the unaudited management accounts of APG Group prepared in accordance with the accounting principles generally accepted in Hong Kong for the Relevant Period or since their respective dates of incorporation or acquisition, where there is a shorter period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountants" issued by the Hong Kong Institute of Certified Public Accountants.

The Financial Information set out in this report has been prepared based on the audited financial statements of APG Group for the Relevant Period.

The directors of APG Group are responsible for the preparation of the financial statements of APG Group which give a true and fair view. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of APG Group are also responsible for the Financial Information of APG Group as at and for each of the period ended 31 December 2002 and the two years ended 31 December 2003 and 2004. It is our responsibility to form an independent opinion on the Financial Information of APG Group.

As stated in note 7 to the Financial Information, APG Group acquired five subsidiaries namely 上海大眾汽車成都申蓉銷售服務有限公司 (“Chengdu Shenrong”), 北京申銀汽車銷售有限公司 (“Beijing Shenyin”), 西安唐飛汽車銷售服務有限公司 (“Xian Tongfei”), 上海大眾汽車天津東麗銷售服務有限公司 (“Tianjin Dongli”) and 嘉興市水木清華置業有限公司 (“Jiaxing Shuimu”) and formed a subsidiary namely 四川申蓉常瑞汽車貿易有限公司 (“Sichuan Shenrong”) during the year ended 31 December 2004 of which Chengdu Shenrong, Beijing Shenyin, Sichuan Shenrong, Tianjin Dongli and Jiaxing Shuimu were disposed of in the same year. The remaining subsidiary, Xian Tongfei was deregistered in April 2004. APG Group does not have the books and records of these subsidiaries for consolidation of the financial statements of these subsidiaries from the dates of acquisitions or establishment up to the dates of disposals into the Financial Information of APG Group for the year ended 31 December 2004 as the books and records had been handover to the purchasers upon disposals. This is not in accordance with the requirements of Statement of Standard Accounting Practice No. 32 issued by the Hong Kong Institute of Certified Public Accountants. Disclosures of the information on the non-consolidated subsidiaries' results attributable to APG Group as required by Schedule 10 of the Companies Ordinance have not been included in the Financial Information.

Except for the non-consolidation of the financial statements of the subsidiaries as stated in the preceding paragraph, in our opinion, the Financial Information together with the notes thereon, give for the purpose of this report, a true and fair view of the results of operations and cash flows of APG Group for the Relevant Period, and of the financial position of APG Group as at 31 December 2002, 2003 and 2004.

I. FINANCIAL INFORMATION

The Financial Information of APG Group for the Relevant Period prepared on the basis set out in Note 1 to the Financial Information is as follows:

Consolidated income statements

		Period from 21 August 2002 to 31 December 2002	Year ended 31 December 2003	2004
	Note	RMB'000	RMB'000	RMB'000
Turnover	3	—	—	1,121,704
Cost of sales		—	—	(1,067,135)
Gross profit		—	—	54,569
Other revenue	3	—	—	17,487
Distribution and selling expenses		—	—	(21,574)
General and administrative expenses		—	(436)	(35,948)
Other operating expenses	5	—	—	(6,290)
(Loss)/profit from operations	6	—	(436)	8,244
Gain on disposal of non-consolidated subsidiaries	7	—	—	10,000
Finance costs	8	—	—	(4,843)
(Loss)/profit before tax		—	(436)	13,401
Taxation	10	—	(7)	(8,980)
(Loss)/profit before minority interests		—	(443)	4,421
Minority interests		—	—	(2,786)
(Loss)/profit attributable to shareholders	11	—	(443)	1,635

Consolidated statements of changes in equity

	Share capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Retained profits/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
As at 21 August 2002 (date of incorporation)	–	–	–	–
Issue of share capital	–	–	–	–
Loss attributable to shareholders	–	–	–	–
As at 31 December 2002	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
As at 1 January 2003	–	–	–	–
Issue of share capital	8,269	–	–	8,269
Loss attributable to shareholders	–	–	(443)	(443)
As at 31 December 2003	<u>8,269</u>	<u>–</u>	<u>(443)</u>	<u>7,826</u>
As at 1 January 2004	8,269	–	(443)	7,826
Issue of share capital	83,095	–	–	83,095
Profit attributable to shareholders	–	–	1,635	1,635
Transfer from retained profits	–	145	(145)	–
As at 31 December 2004	<u>91,364</u>	<u>145</u>	<u>1,047</u>	<u>92,556</u>

Consolidated balance sheets

		At 31 December		
		2002	2003	2004
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Goodwill	12	—	—	19,098
Fixed assets	13	—	—	101,312
Interest in an associate	14	—	—	150
Investment securities	15	—	—	215
Deferred tax assets	29	—	—	10,694
		—	—	131,469
CURRENT ASSETS				
Inventories	16	—	—	139,532
Properties under development	17	—	—	18,807
Completed properties held for sales	18	—	—	1,995
Land held for future development	19	—	—	16,746
Due from former subsidiaries	20	—	—	5,017
Due from minority shareholders	21	—	—	25,864
Deposits, prepayments and other receivables		—	—	52,276
Prepayments to suppliers		—	—	81,478
Trade receivables	22	—	—	65,359
Tax recoverable		—	—	7,161
Pledged bank deposits		—	—	111,508
Restricted bank balances		—	—	2,892
Cash and bank balances		—	8,025	48,217
		—	8,025	576,852
CURRENT LIABILITIES				
Trade payables	23	—	—	(72,927)
Bills payable, secured		—	—	(220,111)
Other payables and accruals		—	—	(44,932)
Bank loans, secured	24	—	—	(88,053)
Deposits received from customers		—	—	(55,176)
Due to minority shareholders	25	—	—	(16,368)
Due to a shareholder	26	—	—	(46,716)
Due to a director	27	—	—	(3,310)
Other loans		—	(199)	(224)
Tax payable	28	—	—	(11,864)
		—	(199)	(559,681)
NET CURRENT ASSETS				
		—	7,826	17,171
TOTAL ASSETS LESS CURRENT LIABILITIES				
		—	7,826	148,640
MINORITY INTERESTS				
		—	—	(56,084)
NET ASSETS				
		—	7,826	92,556
Represented by:				
SHARE CAPITAL				
	30	—	8,269	91,364
RESERVES				
	31	—	(443)	1,192
SHAREHOLDER'S EQUITY				
		—	7,826	92,556

Consolidated cash flow statements

	Period from 21 August 2002 to 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	2004 RMB'000
(Loss)/profit before tax	–	(436)	13,401
Depreciation	–	–	4,606
Amortisation of goodwill	–	–	2,122
Bad debts	–	–	30
Provision for inventories	–	–	556
Provision for doubtful debts	–	–	2,794
Gain on disposal of non-consolidated subsidiaries	–	–	(10,000)
Net loss on disposal of fixed assets	–	–	181
Bank interest income	–	–	(2,650)
Other interest income	–	–	(781)
Interest expenses	–	–	4,102
Provision for completed properties held for sales	–	–	419
Operating (loss)/profit before working capital changes	–	(436)	14,780
Increase in inventories	–	–	(15,547)
Increase in amounts due from former subsidiaries	–	–	(217)
Increase in amounts due from minority shareholders	–	–	(15,064)
Decrease in deposits, prepayments and other receivables	–	–	21,833
Increase in prepayment to suppliers	–	–	(13,596)
Increase in trade receivables	–	–	(39,995)
Increase in trade payables	–	–	57,383
Decrease in amounts due from non-consolidated subsidiaries	–	–	10,006
Decrease in bills payable	–	–	(18,219)
Decrease in other payables and accruals	–	–	(10,594)
Increase in other tax payable	–	–	902
Increase in deposits received from customers	–	–	12,638
Cash (used in) generated from operations	–	(436)	4,310
Other interest income received	–	–	781
Bank interest income received	–	–	2,650
Interest paid	–	–	(3,736)
Income tax paid	–	–	–
– the PRC	–	–	(6,615)
– USA	–	(7)	–
Net cash used in operating activities	–	(443)	(2,610)

		Period from 21 August 2002 to 31 December 2002	Year ended 31 December	
	Note	RMB'000	2003 RMB'000	2004 RMB'000
Investing activities				
Purchase of fixed assets		—	—	(48,642)
Purchase of subsidiaries	32	—	—	(67,843)
Payment for completed properties held for sales		—	—	(2,414)
Payment for properties under development		—	—	(15,059)
Payment for land held for future development		—	—	(16,746)
Purchase of investment securities		—	—	(200)
Proceeds from disposal of investment securities		—	—	607
Proceeds on disposal/deregistration of non-consolidated subsidiaries		—	—	29,554
Proceeds on disposal of fixed assets		—	—	2,114
Increase in pledged and restricted bank balances		—	—	34,081
Net cash used in investing activities		—	—	(84,548)
Financing activities				
Issue of share capital		—	8,269	83,095
New bank loans		—	—	41,206
New other loans		—	199	—
New loan from a shareholder		—	—	46,350
Repayment of amount due to a director		—	—	(48,420)
Increase in amounts due to minority shareholders		—	—	2,469
Repayment of amount due to a non-consolidated subsidiary		—	—	(9,850)
Capital contributed by minority shareholders		—	—	12,500
Net cash generated from financing activities		—	8,468	127,350
Net increase in cash and cash equivalents		—	8,025	40,192
Cash and cash equivalents at the beginning of the period/year		—	—	8,025
Cash and cash equivalents at the end of the period/year		—	8,025	48,217
Analysis of balances of cash				
Cash and bank balances		—	8,025	48,217

II. NOTES TO THE FINANCIAL INFORMATION

1. Basis of presentation

As at the date of this report, APG has direct or indirect interest in the following subsidiaries:

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Star Western Holdings, LLC (“Star Western”)	USA	US\$8,750,000	100%	–	Investment holding
寧波美立資產管理有限公司 (Ningbo Meili Asset Management Co. Ltd)	PRC	US\$8,650,000	–	100%	Investment holding
寧波美立德諮詢有限公司 (Ningbo Meilide Consulting Co. Ltd.)	PRC	US\$750,000	–	100%	Investment holding
寧波保稅區亞飛貿易有限公司 (Ningbo Duty-free Zone Yafei Trading Co. Ltd.)	PRC	RMB1,000,000	–	100%	Investment holding
寧波鳳凰汽車銷售服務有限公司 (Ningbo Phoenix Automobile Distribution and Services Co., Ltd) (“Ningbo Phoenix”)	PRC	RMB135,357,883	–	100%	Investment holding and trading of motor vehicles
上海聖飛汽車銷售服務有限公司 (Shanghai Shengfei Automobile Sale and Services Ltd.)	PRC	RMB5,000,000	–	90%	Trading of motor vehicles
上海環亞中進國際貿易有限公司 (Shanghai Huanya Zhougin International Trade Co. Ltd.)	PRC	RMB1,000,000	–	100%	Trading of motor vehicles
廣州申飛汽車銷售服務有限公司 (Guangzhou Shenfei Automobile Sales and Services Co. Ltd.)	PRC	RMB29,990,000	–	63.32%	Trading of motor vehicles
廣東眾大汽車維修有限公司 (Guangdong Zhongda Automobile Maintenance Co., Ltd)	PRC	RMB2,000,000	–	56.99%	Trading of motor vehicles and providing repair and maintenance services
廣州申奧汽車銷售服務有限公司 Guangzhou Shen Ao Automobile Sales and Services Co. Ltd. (“Guangzhou Shen Ao”)	PRC	RMB5,000,000	–	56.99%	Trading of motor vehicles

Name	Place of incorporation or registration/ operations	Issued and fully paid share capital/ registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
廣東佳馬汽車銷售服務有限公司 (Guangdong Jiama Automobile Sales and Services Co Ltd) ("Guangdong Jiama")	PRC	RMB5,000,000	–	56.99%	Trading of motor vehicles
廣州市申飛通立汽車銷售服務有限公司 (Guangzhou Shenfe Tongli Automobile Sales and Service Co., Ltd)	PRC	RMB5,000,000	–	61.74%	Trading of motor vehicles
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 Shengfei")	PRC	RMB12,000,000	–	51%	Trading of motor vehicles
寧波聖菲汽車銷售服務有限公司 (Ningbo Shengfei Automobile Sales and Services Ltd) ("Ningbo Shengfei")	PRC	RMB10,000,000	–	51%	Trading of motor vehicles and providing repair and maintenance services
上海大眾汽車寧波銷售服務有限公司 (Shanghai Volkswagen Ningbo Sales and Services Company Ltd.) ("Shanghai Ningbo")	PRC	RMB2,000,000	–	51%	Trading of motor vehicles
上海怡通汽車銷售服務有限公司 (Shanghai Yitong Automobile Sales Co., Ltd.) ("Shanghai Yitong Sales")	PRC	RMB10,000,000	–	51%	Trading of motor vehicles
上海怡通汽車服務有限公司 (Shanghai Yitong Automobile Service Co. Ltd) ("Shanghai Yitong")	PRC	RMB10,000,000	–	51%	Trading of motor vehicles and providing repair and maintenance services
上海大眾汽車台州銷售服務有限公司 (Shanghai Volkswagen Taizhou Sales & Service Co. Ltd) ("Shanghai Taizhou")	PRC	RMB5,000,000	–	51%	Trading of motor vehicles and providing repair and maintenance services
寧波華都房地產有限公司 (Ningbo Huadu Real Estate Co., Ltd) ("Ningbo Huadu") (Note i)	PRC	RMB6,038,153	–	50%	Property development
金華市華都置業有限公司 (Jinhua Huadu Property Co. Ltd) ("Jinhua Huadu") (Note ii)	PRC	RMB10,000,000	–	27.5%	Property development

Note:

- (i) The board of directors of Ningbo Huadu consists of 7 members of whom 4 members are nominated by Ningbo Phoenix, a 51% owned-subsiary, therefore, the directors considered that it is appropriate to classify Ningbo Huadu as subsidiary of APG Group.
- (ii) Ningbo Huadu holds 55% interest in Jinhua Huadu, therefore, Jinhua Huadu is a subsidiary of APG Group notwithstanding the effective interest is 27.5%.

The consolidated income statements and cash flow statements for the Relevant Period include the results of operations and cash flows of the companies of APG Group throughout the Relevant Period covered by this report or since their respect dates of incorporation or acquisition where there was a shorter period, except for those non-consolidated subsidiaries as set out in note 7 to the Financial Information.

The consolidated balance sheets of APG Group as at 31 December 2002, 2003 and 2004 have been prepared to present the financial position of the companies of APG Group as at 31 December 2002, 2003 and 2004, except for those non-consolidated subsidiaries as set out in note 7 to the Financial Information.

All significant transactions and balances within APG Group have been eliminated on consolidation.

2. Principal accounting policies

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities of The Stock Exchange. A summary of the principal accounting policies adopted by APG Group (which is consistent with the accounting policies of the Group) is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effect for accounting periods beginning on or after 1 January 2005.

APG Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. APG Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(b) Subsidiaries

A subsidiary is a company whose financial and operating policies APG Group controls, directly or indirectly, so as to obtain benefits from its activities.

The interest in subsidiary is stated at cost less any impairment losses.

(c) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Leasehold buildings	2% or over the lease terms, whichever is shorter
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10%-20%
Motor vehicles	10%-20%
Plant and machinery	10%-20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(d) Consolidation

The consolidated financial statements include the financial statements of APG and all of its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and APG Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidated income statement.

Minority interests represents the interests of outside shareholders in the operating results and net assets of subsidiaries.

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over APG Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(f) Construction-in-progress

Construction-in-progress is stated at cost which comprises construction costs, purchased costs and other related expenses incurred in connection with the construction of plant and machinery for own use, less any provision for impairment loss. No depreciation is provided for construction-in-progress until they are completed and put into production.

(g) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(h) Associate

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The consolidated income statement includes APG Group's share of the results of associate for the year, and the consolidated balance sheet includes APG Group's share of the net assets of the associate and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless APG Group has incurred obligations or guaranteed obligations in respect of the associate.

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

(i) Investment securities

Investment securities are stated in the consolidated balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such investment securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Provisions against the carrying value of investment securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out method of closing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made to obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity, if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Foreign currencies

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

(m) Revenue recognition

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

- (i) Revenue from the sales of motor vehicles, on the transfer of ownership, which generally coincides with the time of delivery; and
- (ii) Revenue from properties developed for sale is recognised on the execution of a binding sales agreement or when the relevant occupation permit or certificate of compliance is issued by the building authority, whichever is the later.
- (iii) Revenue from properties held for sale is recognised on the execution of a binding sales agreement. Payments received from the purchasers prior to this stage are recorded as deposits received on sales of properties and are grouped under current liabilities.
- (iv) Interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(n) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(o) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of cash management.

(q) Provisions and contingent liabilities

A provision is recognised when there is present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) than an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and 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 APG Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3. Turnover and revenue

An analysis of the turnover and other revenue is as follows:

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>			Year ended 31 December 2003 <i>RMB'000</i>		2004 <i>RMB'000</i>
Turnover						
Sales of automobiles and parts	—			—		1,103,889
Sales of properties	—			—		17,815
	—			—		1,121,704
Other revenue						
Advertising income	—			—		95
Bank interest income	—			—		2,650
Compensation income	—			—		48
Consultancy income	—			—		1,895
Gain on disposal of fixed assets	—			—		164
Government subsidy	—			—		210
Insurance income	—			—		5,783
Other interest income	—			—		781
Service fee income	—			—		3,596
Subsidy income	—			—		272
Sundry income	—			—		1,572
Testing income	—			—		421
	—			—		17,487
Total revenue	—			—		1,139,191

4. Segment information

Segment information is presented in respect of APG Group's business segments. Business segment is chosen as the primary reporting format because this is more relevant to APG Group's internal financial reporting. Geographic segment information is not presented as APG Group operates predominantly in the PRC.

(a) An analysis of the turnover and results by business segment is as follows:

	Period from 21 August 2002 to		
	31 December 2002	Year ended 31 December 2003	31 December 2004
	RMB'000	RMB'000	RMB'000
Turnover:			
– Distribution of motor vehicles	–	–	1,103,889
– Property development	–	–	17,815
	<u>–</u>	<u>–</u>	<u>1,121,704</u>
Segment results:			
– Distribution of motor vehicles	–	–	19,338
– Property development	–	–	7,216
	<u>–</u>	<u>–</u>	<u>26,554</u>
Unallocated (expenses)/income, net	–	(436)	(18,310)
	<u>–</u>	<u>(436)</u>	<u>8,244</u>
Profit/(loss) from operations	–	(436)	8,244
Gain on disposal of non-consolidated subsidiaries	–	–	10,000
Finance costs	–	–	(4,843)
	<u>–</u>	<u>(436)</u>	<u>13,401</u>
(Loss)/profit before tax	–	(436)	13,401
Taxation	–	(7)	(8,980)
	<u>–</u>	<u>(443)</u>	<u>4,421</u>
(Loss)/profit before minority interests	–	(443)	4,421
Minority interests	–	–	(2,786)
	<u>–</u>	<u>(443)</u>	<u>1,635</u>
(Loss)/profit attributable to shareholders	<u>–</u>	<u>(443)</u>	<u>1,635</u>
Depreciation and amortisation			
– Distribution of motor vehicles	–	–	6,207
– Property development	–	–	179
– Unallocated	–	–	342
	<u>–</u>	<u>–</u>	<u>6,728</u>
Provision for doubtful debts			
– Distribution of motor vehicles	–	–	2,290
– Property development	–	–	504
	<u>–</u>	<u>–</u>	<u>2,794</u>

(b) Additional information on business segments

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Segment assets:			
– Distribution of motor vehicles	–	–	550,817
– Property development	–	–	86,090
	–	–	636,907
Unallocated assets	–	8,025	71,414
Total assets	–	8,025	708,321
Segment liabilities:			
– Distribution of motor vehicles	–	–	(436,397)
– Property development	–	–	(44,683)
	–	–	(481,080)
Unallocated liabilities	–	(199)	(78,601)
Total liabilities	–	(199)	(559,681)
Capital expenditure			
– Distribution of motor vehicles	–	–	47,271
– Property development	–	–	252
– Unallocated	–	–	1,119
	–	–	48,642

5. Other operating expenses

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Year ended 31 December 2004 <i>RMB'000</i>
Bad debts	—	—	30
Provision for doubtful debts	—	—	2,794
Loss on disposal of fixed assets	—	—	345
Provision for completed properties held for sales	—	—	419
Amortisation of goodwill	—	—	2,122
Provision for inventories	—	—	556
Others	—	—	24
	<u>—</u>	<u>—</u>	<u>6,290</u>

6. (Loss)/profit from operations

The (loss)/profit from operations was arrived at after charging the following:

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Year ended 31 December 2004 <i>RMB'000</i>
Charging:			
Auditors' remuneration	—	—	7
Depreciation on owned assets	—	—	4,606
Minimum lease payments under operating leases	—	—	5,902
Staff costs			
— Salaries, bonuses, allowances and benefits in kind	—	—	15,971
	<u>—</u>	<u>—</u>	<u>15,971</u>

7. Gain on disposal of non-consolidated subsidiaries

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	Year ended 31 December 2004 <i>RMB'000</i>
Sales proceeds	—	—	34,754
Cost of investments	—	—	(24,754)
	<u>—</u>	<u>—</u>	<u>10,000</u>
Gain on disposal	<u>—</u>	<u>—</u>	<u>10,000</u>

In January 2004, APG acquired the entire issued share capital of Star Western which held, among others, Shanghai Volkswagen Chengdu Shenrong Sales & Service Co., Ltd. (“Chengdu Shenrong”) (上海大眾汽車成都申蓉銷售服務有限公司), Beijing Shenyin Automobile Sales Co., Ltd (“Beijing Shenyin”) (北京申銀汽車銷售有限公司), Shanghai Volkswagen Tianjin Dongli Sales & Service Co., Ltd (“Tianjin Dongli”) (上海大眾汽車天津東麗銷售服務有限公司) and 西安唐飛汽車銷售服務有限公司 (“Xian Tongfei”). On 8 January 2004, Ningbo Phoenix formed a 51% owned subsidiary namely 四川申蓉常瑞汽車貿易有限公司 (“Sichuan Shenrong”). Chengdu Shenrong, Beijing Shenyin, Tianjin Dongli and Sichuan Shenrong were engaged in distribution of automobiles. Xian Tongfei had not commenced any business.

Ningbo Phoenix disposed of Chengdu Shenrong on 22 September 2004, Beijing Shenyin on 21 October 2004, Tianjin Dongli on 21 October 2004 and Sichuan Shenrong on 29 September 2004 respectively to 王常裕 (Wang Chang Yu) a director of Chengdu Shenrong, 沈東鷹 (Shan Dong Yin) a minority shareholder who held 28.96% of the registered capital of Beijing Shenyin, 張玉新 (Zhang Yuxin) a minority shareholder who held 29% of the registered capital of Tianjin Dongli and 上海藍深實業有限公司 (Shanghai Lanshan Enterprises Co., Ltd) an independent third party at book value for a total of approximately RMB19,954,000. As Xian Tongfei was located far away from APG Group’s distribution network such as Ningbo, Shanghai and Guangzhou, therefore, the directors decided to close Xian Tongfei. As such Xian Tongfei was deregistered in April 2004.

On 26 October 2004, Ningbo Phoenix acquired a 50% subsidiary Ningbo Huadu from 張偉軍 (Chang Weijun). Ningbo Huadu had a 60% subsidiary, namely 嘉興市水木清華置業有限公司 (“Jiaxing Shuimu”) which was engaged in property development. Subsequent to the acquisition, 寧波城之源置業有限公司 (Ningbo Chenggi Yuan Property Co., Ltd) (“Ningbo Chenggi”) (formerly 寧波經濟技術開發區城市建設總公司) (Ningbo Economic and Technical Development Zone Urban Construction Company) made an offer to APG Group to purchase the interest in Jiaxing Shuimu, therefore, on 2 November 2004 Ningbo Huadu disposed of the entire interest in Jiaxing Shuimu to Ningbo Chenggi for RMB14,800,000 with investment cost of RMB4,800,000, therefore, APG Group recorded a gain of RMB10,000,000 on the disposal.

8. Finance costs

	Period from 21 August 2002 to 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	Year ended 31 December 2004 RMB'000
Bank charges	—	—	741
Interest on bank loans	—	—	3,460
Other interest	—	—	642
	<u>—</u>	<u>—</u>	<u>4,843</u>

9. Directors’ and senior executives’ remuneration

- a) No remunerations were paid or payable to directors of APG for the Relevant Period. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.
- b) The five highest paid individuals in APG Group for the Relevant Period are as follows:

	Period from 21 August 2002 to 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	Year ended 31 December 2004 RMB'000
Salaries, allowances and benefits in kind	<u>—</u>	<u>341</u>	<u>1,733</u>

The number of individuals whose remuneration fell within the following bands is as follows:

	Number of individuals		
	Period from 21 August 2002 to 31 December 2002	Year ended 31 December 2003	31 December 2004
Nil to HK\$1,000,000	<u>—</u>	<u>1</u>	<u>5</u>

10. Taxation

No provision for Hong Kong profits tax had been made as APG Group did not generate any assessable profits arising in Hong Kong during the Relevant Period.

Taxation in the consolidated income statement represents:

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	31 December 2004 <i>RMB'000</i>
Current tax			
USA income tax	—	7	7
PRC enterprise income tax	<u>—</u>	<u>—</u>	<u>11,395</u>
	—	7	11,402
Deferred tax	<u>—</u>	<u>—</u>	<u>(2,422)</u>
Tax charge	<u>—</u>	<u>7</u>	<u>8,980</u>

A reconciliation between tax charge and accounting (loss)/profit at applicable tax rates is as follows:

	Period from 21 August 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	31 December 2004 <i>RMB'000</i>
(Loss)/profit before tax	<u>—</u>	<u>(436)</u>	<u>13,401</u>
Notional tax on (loss)/profit before tax, calculated at the rates applicable in the tax jurisdictions concerned	—	(104)	6,554
Tax effect of non-deductable expenses	—	111	—
Tax effect of tax losses not recognised	<u>—</u>	<u>—</u>	<u>2,426</u>
Tax charge	<u>—</u>	<u>7</u>	<u>8,980</u>

11. (Loss)/profit attributable to shareholders

The loss for the period ended 31 December 2002 and years ended 31 December 2003 and 2004 dealt with in the financial statements of APG were approximately RMBNil, RMB443,000 and RMB2,266,000 respectively.

12. Goodwill

	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost			
At beginning of the period/year	—	—	—
Arising from acquisition of subsidiaries	—	—	21,220
	<u>—</u>	<u>—</u>	<u>21,220</u>
At end of the period/year	<u>—</u>	<u>—</u>	<u>21,220</u>
Accumulated amortisation			
At beginning of the period/year			
Charge for the period/year	—	—	(2,122)
	<u>—</u>	<u>—</u>	<u>(2,122)</u>
At end of the period/year	<u>—</u>	<u>—</u>	<u>(2,122)</u>
Net book value			
At end of the period/year	<u>—</u>	<u>—</u>	<u>19,098</u>

13. Fixed assets

	Land and buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost							
At 21 August 2002 and 31 December 2002	-	-	-	-	-	-	-
At 1 January 2003 and 31 December 2003	-	-	-	-	-	-	-
At 1 January 2004	-	-	-	-	-	-	-
Acquisition of subsidiaries	7,301	40,101	543	6,449	4,666	10,771	69,831
Additions	-	33,937	1,263	5,115	2,782	5,545	48,642
Disposals	(1,004)	-	-	(149)	-	(3,032)	(4,185)
Transfer from construction in progress	27,463	(27,463)	-	-	-	-	-
At 31 December 2004	33,760	46,575	1,806	11,415	7,448	13,284	114,288
Accumulated depreciation							
At 21 August 2002 and 31 December 2002	-	-	-	-	-	-	-
At 1 January 2003 and 31 December 2003	-	-	-	-	-	-	-
At 1 January 2004	-	-	-	-	-	-	-
Acquisition of subsidiaries	3,256	-	32	2,298	1,492	3,183	10,261
Charge for the year	951	-	332	946	836	1,541	4,606
Disposals	(518)	-	-	(27)	-	(1,346)	(1,891)
At 31 December 2004	3,689	-	364	3,217	2,328	3,378	12,976
Net book value							
At 31 December 2004	30,071	46,575	1,442	8,198	5,120	9,906	101,312
At 31 December 2003	-	-	-	-	-	-	-
At 31 December 2002	-	-	-	-	-	-	-

a) The land and buildings at their net book value are analysed as follows:

	At 31 December		
	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Held in the PRC on:			
- Leases of 10 to 50 years	-	-	29,788
- Leases of over 50 years	-	-	283
	-	-	30,071

b) Included in the land and buildings, there were certain properties held by APG Group the ownership of which are as follows:

i) There are collectively held and allocated land amounted to approximately RMB910,000 and the buildings on the land amounted to approximately RMB1,465,000, totaling approximately RMB2,375,000 (2003: RMB2,992,000) registered in name of Linhai Automobile Repair Factory ("Linhai Repair"). According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Linhai Repair wound up on 24 November 2003 and all the

assets under the name of Linhai Repair had been injected to Shanghai Taizhou, a subsidiary of Ningbo Phoenix Group and Shanghai Taizhou has obtained the long term use rights of the land and the building ownership rights of the buildings are legally owned by Shanghai Taizhou. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off for the land and buildings is necessary.

- ii) There are no title ownership certificates for certain buildings with net book value of approximately RMB6,116,000 as at 31 December 2004 held by Shanghai Yitong Sales, a subsidiary of APG Group. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Shanghai Yitong Sales is in the course of applying for the real estate ownership certificate. As Shanghai Yitong Sales has obtained the land use right certificate for the land, based on the legal opinion issued by the PRC lawyer, the directors considered that there are no obstacle to prevent Shanghai Yitong Sales to obtain the said real estate ownership certificate. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off of the land and buildings is necessary.
 - iii) There are no title ownership certificates for certain buildings with net book value of approximately RMB3,666,000 (2003: approximately RMB212,000) as at 31 December 2004 held by Shanghai Ningbo. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Shanghai Ningbo is in the course of applying for the real estate ownership certificate. As Shanghai Ningbo has obtained the land use right certificate for the land, the PRC lawyer considered that there is no obstacle in obtaining the said real estate ownership certificate. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off of the land and buildings is necessary.
 - iv) There are certain properties with net book value of approximately RMB9,749,000 as at 31 December 2004 constructed by Shanghai Shengfei which was on the land leased from Shanghai Automobile Repair Company ("Shanghai Repair") with a term of 15 years. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), 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, Shanghai Repair is applying for the real estate ownership. As Shanghai Repair has obtained the land use right certificate for the land, the PRC lawyer considered that there is no obstacle in obtaining the said real estate ownership certificate. Notwithstanding the legal owner of the properties is vested with Shanghai Repair, the directors considered that Shanghai Shengfei has the right to use the properties during the lease period under the lease agreement, therefore, it is appropriate to recognize the properties in the Financial Information and depreciate the properties according to the lease terms.
- c) Included in the construction in progress, there were certain properties under construction held by APG Group as follows:

There are properties under construction with net book value of approximately RMB44,713,000 as at 31 December 2004 developed by Guangzhou Shenfei, a subsidiary, 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 is 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 a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), 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 the real estate ownership certificates for the properties. The PRC lawyer consider that there is no obstacle in obtaining the real estate ownership certificates, therefore, the directors considered it is appropriate to recognize the properties under construction.

14. Interest in an associate

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>-</u>	<u>-</u>	<u>150</u>

The details of the associate were as follows:

Name	Place of incorporation	% of interest held	Principal activities
上海怡通汽車修理有限公司 (Shanghai Yitong Automobile Repairing Co., Ltd.)	PRC	30%	Repair motor vehicle

15. Investment securities

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Unlisted equity investments, at cost	-	-	50
Fund, at cost	-	-	150
Club membership	<u>-</u>	<u>-</u>	<u>15</u>
	<u>-</u>	<u>-</u>	<u>215</u>

16. Inventories

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Finished goods	-	-	141,763
Provision	<u>-</u>	<u>-</u>	<u>(2,231)</u>
	<u>-</u>	<u>-</u>	<u>139,532</u>

No inventories were stated at net realisable value.

17. Properties held under development

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost			
Held under long term leases	—	—	15,059
Held under medium term leases	—	—	3,748
	<u>—</u>	<u>—</u>	<u>18,807</u>

18. Completed properties held for sales

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	—	—	2,414
Less: provision	—	—	(419)
	<u>—</u>	<u>—</u>	<u>1,995</u>

The aggregate carrying value of completed properties held for sale that were carried at net realisable value amounted to approximately RMB419,000 (2003: Nil, 2002: Nil).

19. Land held for future development

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At Cost	<u>—</u>	<u>—</u>	<u>16,746</u>

The land held for future development was located at Jinhua, Zhejiang Province, the PRC and held for a lease period of 40 years. On 1 November 2004, Jinhua Huadu, a subsidiary of APG Group, appointed Mr. Zhang Minaghai ("Mr. Zhang") and Mr. Lin Zhou ("Mr. Lin") to purchase the land. Mr. Zhang and Mr. Lin are minority shareholders who held 25% and 20% of the registered capital of Jinhua Huadu, a 27.5% subsidiary of APG Group.

Pursuant to a stated-owned land use rights grant contract entered into between the Land Resources Bureau of Jinhua and Mr. Zhang and Mr. Lin, the total consideration for the land was RMB16,746,000 of which RMB12,000,000 were paid as at 31 December 2004 and the balance of RMB4,746,000 was included in other payable.

Subsequent to the balance sheet date on 27 May 2005, the Land Resources Bureau of Jinhua issued a land use right certificate to Jinhua Huadu.

20. Due from former subsidiaries

	At 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Beijing Shenyin	—	—	6
Chengdu Shenrong	—	—	789
Jiaxing Shuimu	—	—	4,222
	<u>—</u>	<u>—</u>	<u>5,017</u>

The amounts were interest free, unsecured and had no fixed terms of repayment. The amount due from Jiaxing Shuimu has been fully settled subsequent to 31 December 2004.

21. Due from minority shareholders

	At 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Ningbo Chenggi (<i>Note i</i>)	—	—	10,300
Wang Xingkang (<i>Note ii</i>)	—	—	1,564
Liang Xinghui (<i>Note iii</i>)	—	—	4,000
Jiang Ruzhi (<i>Note iv</i>)	—	—	500
Liu Fei (<i>Note v</i>)	—	—	9,500
	<u>—</u>	<u>—</u>	<u>25,864</u>

Note:

- (i) The amount represents balance of consideration receivable from disposal of a subsidiary namely Jiaxing Shuimu and was due for settlement on 2 February 2005. Pursuant to a repayment schedule issued by Ningbo Chenggi, RMB5,000,000 will be settled by 30 July 2005 and the remaining balance of RMB5,300,000 will be settled by 31 December 2005. In the opinion of the directors, as Ningbo Chenggi will settle the balance by the end of 2005, therefore, no provision for the amount due is considered necessary.
- (ii) The amount was interest free, unsecured and had no fixed terms of repayment. Wang Xingkang held 49% registered capital of Shanghai Ningbo, a 51% subsidiary of APG Group and 24% of the registered capital of Ningbo Shengfei, a 51% subsidiary of APG Group.
- (iii) The amount was interest free, unsecured and had no fixed terms of repayment. Liang Xinghui held 10% registered capital of Shanghai Taizhou, a 51% subsidiary of APG Group.
- (iv) The amount was interest free, unsecured and had no fixed terms of repayment. Jiang Ruzhi held 10% registered capital of Guangdong Jiama, a 56.99% subsidiary of APG Group.
- (v) The amount was interest free, unsecured and had no fixed terms of repayment. Liu Fei held 10% registered capital of Guangzhou Shen Ao, a 56.99% subsidiary of APG Group.

22. Trade receivables

The credit period granted to customers normally ranges from 30 to 90 days. The aging analysis of the trade receivables is as follows:

	At 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
0 to 30 days	—	—	26,464
31 to 60 days	—	—	1,622
61 to 90 days	—	—	13,687
91 to 120 days	—	—	5,171
121 to 180 days	—	—	3,076
181 to 365 days	—	—	16,520
1 to 2 years	—	—	453
Over 2 years	—	—	21
	<u>—</u>	<u>—</u>	<u>67,014</u>
Less: Provision for doubtful debts	—	—	(1,655)
	<u>—</u>	<u>—</u>	<u>65,359</u>

23. Trade payables

The aging analysis of trade payables is as follows:

	At 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
0 to 30 days	—	—	32,454
31 to 60 days	—	—	6,913
61 to 90 days	—	—	4,742
91 to 120 days	—	—	75
121 to 180 days	—	—	20,166
181 to 365 days	—	—	877
1 to 2 years	—	—	7,696
Over 2 years	—	—	4
	<u>—</u>	<u>—</u>	<u>72,927</u>

24. Bank loans, secured

	At 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Bank loans wholly repayable within one year	<u>—</u>	<u>—</u>	<u>88,053</u>

The bank loans were secured by the following:

- (i) Leasehold land and buildings with carrying value of approximately RMB13,529,000 as at 31 December 2004;
- (ii) Properties under development of approximately RMB3,748,000 as at 31 December 2004;
- (iii) Completed properties held for sales of approximately RMB897,000 as at 31 December 2004;
- (iv) Other receivable of approximately RMB1,000,000 as at 31 December 2004;
- (v) Bank deposits of approximately RMB18,600,000 as at 31 December 2004;
- (vi) Corporate guarantee executed by a subsidiary, a minority shareholder, a related party and a third party.

25. Due to minority shareholders

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
上海市汽車修理公司	—	—	1,000
台州之遠汽車銷售服務有限公司			
(Taizhou Giyuan Automobile Sales and Services Ltd)	—	—	8,596
Zhang Minghai	—	—	900
Wang Chang Yu	—	—	4,500
Liu Fei	—	—	1,372
	<u>—</u>	<u>—</u>	<u>16,368</u>

The amount are interest free, unsecured and have no fixed terms of repayment.

26. Due to a shareholder

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
American Compass, Inc.			
– Loan principal	—	—	46,350
– Accrued interest	—	—	366
	<u>—</u>	<u>—</u>	<u>46,716</u>

On 20 September 2004, APG entered into an agreement with American Compass, Inc, a shareholder of APG pursuant to which American Compass, Inc granted a term loan facility up to US\$5.6 million (equivalent to approximately RMB46,350,000) to APG. The loan is secured by a share mortgage of 25% equity interest of Star Western a wholly-owned subsidiary of APG. The loan bears interest at the rate of 5% per annum and repayable in full within 3 months after drawdown of the loan or otherwise upon demand.

27. Due to a director

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Mr. Thomas E. Bongarzone			
– Promissory note	<u>—</u>	<u>—</u>	<u>3,310</u>

On 1 December, 2003, APG entered into an agreement to acquire the entire issued share capital of Star Western for USD8,750,000. (equivalent to approximately RMB72,421,000) from Mr. Thomas E. Bongarzone a director, chairman and shareholder of APG. The acquisition was completed effective on 1 January 2004. Pursuant to the agreement, APG shall pay USD2,750,000 in cash and issue a promissory note of USD6,000,000 to Mr. Thomas E. Bongarzone for the acquisition. The promissory note was unsecured, interest free and due on 30 November 2004. As at 31 December 2004, the balance due to Mr. Thomas E. Bongarzone amounted to USD400,000 (equivalent to approximately RMB3,310,000) represented the balance of consideration payable.

28. Tax payable

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Enterprise income tax	—	—	10,962
Other tax	—	—	902
	<u>—</u>	<u>—</u>	<u>11,864</u>

29. Deferred tax assets

Deferred tax assets have been recognised in respect of these losses from certain companies of APG Group as the directors considered that it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized by APG Group.

The movement in deferred tax assets is as follows:

	2002	2003	2004
	RMB'000	RMB'000	RMB'000
At beginning of the period/year	—	—	—
Acquisitions of subsidiaries	—	—	8,272
Credited to consolidated income statements	—	—	2,422
	<u>—</u>	<u>—</u>	<u>10,694</u>

30. Share capital

	Number of shares		
	2002	2003	2004
	'000	'000	'000
Authorised:			
Common stock	1,000	—	—
Class A common stock	—	1,000,000	1,000,000
Class B common stock	—	100,000	100,000
Preferred stock	—	100,000	100,000
	<u>1,000</u>	<u>1,200,000</u>	<u>1,200,000</u>

	Number of shares			Amount		
	2002	2003	2004	2002	2003	2004
	'000	'000	'000	RMB'000	RMB'000	RMB'000
Class A common stock:						
Issued and fully paid:						
At beginning of the						
period/year	—	—	9,518	—	—	8,269
Issue of new shares	—	9,518	17,554	—	8,269	83,095
Cancelled	—	—	(10,143)	—	—	—
	<u>—</u>	<u>—</u>	<u>(10,143)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At end of the						
period/year	<u>—</u>	<u>9,518</u>	<u>16,929</u>	<u>—</u>	<u>8,269</u>	<u>91,364</u>

APG was incorporated on 21 August 2002 with an authorised capital of 1,000,000 shares of stock without par value. Pursuant to an unanimous written consent of the board of directors dated 2 March 2003, the authorised capital of APG had been changed to 1,200,000,000 shares, comprising of 1,000,000,000 shares of Class A common stock, 100,000,000 shares of Class B common stock and 100,000,000 shares of preferred stock.

On 28 April 2003, 9,517,985 shares of Class A common stock were issued for a total consideration of USD999,000 (equivalent to approximately RMB8,269,000). On 8 March 2004, 6,806,083 shares of Class A common stock were issued for a total consideration of RMB70,357,883 of which 3,855,352 shares were cancelled on 28 December 2004. On 25 March 2004, 1,571,947 shares of Class A common stock were issued to American Compass Inc. for USD2,750,000 (equivalent approximately RMB22,761,000), On the same date 3,506,645 management bonus shares of Class A common stock and 2,781,140 shares of Class A common stock were issued, all of which were subsequently cancelled on 28 December 2004. On 28 December 2004, 2,888,000 shares of Class A common stock were issued to several investor for a total consideration of RMB29,854,697.

Subsequent to the balance sheet date on 1 March 2005, 56,413,589 bonus shares of Class A common stock were issued to several existing shareholders of APG pursuant to a capital reorganisation of APG approved under the board resolutions dated 1 March 2005.

31. Reserves

	Statutory surplus reserve <i>RMB'000</i>	Retained profits/ (accumulated losses) <i>RMB'000</i>	Total <i>RMB'000</i>
At 21 August 2002 (date of incorporation)	—	—	—
Loss attributable to shareholders	<u>—</u>	<u>—</u>	<u>—</u>
At 31 December 2002	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
At 1 January 2003	—	—	—
Loss attributable to shareholders	<u>—</u>	<u>(443)</u>	<u>(443)</u>
At 31 December 2003	<u><u>—</u></u>	<u><u>(443)</u></u>	<u><u>(443)</u></u>
At 1 January 2004	—	(443)	(443)
Profit attributable to shareholders	—	1,635	1,635
Transfer from retained profits	<u>145</u>	<u>(145)</u>	<u>—</u>
At 31 December 2004	<u><u>145</u></u>	<u><u>1,047</u></u>	<u><u>1,192</u></u>

32. Notes to the consolidated cash flow statements

Purchase of subsidiaries

	Period from 21 August 2002 to 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	2004 RMB'000
NET ASSETS ACQUIRED			
Fixed assets	—	—	59,571
Interest in non-consolidated subsidiaries	—	—	29,855
Interest in an associate	—	—	150
Investment securities	—	—	622
Due from a former subsidiary	—	—	4,800
Deferred tax assets	—	—	8,272
Inventories	—	—	124,540
Property under development	—	—	3,748
Tax recoverable	—	—	986
Due from a minority shareholder	—	—	500
Due from non-consolidated subsidiaries	—	—	10,006
Prepayments to suppliers	—	—	67,882
Deposits, prepayments and other receivables	—	—	76,558
Trade receivables	—	—	25,739
Restricted bank balances	—	—	1,339
Pledged bank deposits	—	—	147,142
Cash and bank balances	—	—	92,588
Bills payable	—	—	(238,330)
Bank loans	—	—	(46,847)
Trade payables	—	—	(15,544)
Other payables and accruals	—	—	(55,526)
Deposits received from customers	—	—	(42,538)
Due to a non-consolidated subsidiary	—	—	(9,850)
Due to minority shareholders	—	—	(13,899)
Due to a director	—	—	(51,730)
Other loan	—	—	(25)
	—	—	180,009
Minority interests	—	—	(40,798)
	—	—	139,211
Consideration	—	—	(160,431)
Goodwill	—	—	(21,220)
ANALYSIS OF NET CASH OUTFLOW IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES			
Cash consideration paid	—	—	(160,431)
Bank balances and cash acquired	—	—	92,588
NET CASH OUTFLOW IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES	—	—	(67,843)

33. Related party transactions

During the Relevant Period, APG Group have the following significant transactions with its related parties:

Name	Nature of transaction	Note	Period from 21 August 2002 to 31 December 2002	Year ended 31 December	
			RMB'000	2003 RMB'000	2004 RMB'000
a) Zhang Yuxin	Proceeds from disposal of Tianjin Dongli	(i)	—	—	3,953
b) Wang Chang Yu	Proceeds from disposal of Chengdu Shenrong	(ii)	—	—	4,239
c) Shan Dong Yin	Proceeds from disposal of Beijing Shenyin	(iii)	—	—	6,663
d) Ningbo Chenggi	Proceeds from disposal of Jiaxing Shuimu	(iv)	—	—	14,800
e) Shanghai Automobile Repair Company	Rental charge for leasing of properties	(v)	—	—	600

Note:

- (i) Tianjin Dongli was engaged in trading of motor vehicles. In 2004, Ningbo Phoenix entered into an agreement with Zhang Yuxin, a minority shareholder who held 29% of the registered capital of Tianjin Dongli pursuant to which Ningbo Phoenix sold 51% equity interest in Tianjin Dongli for approximately RMB3,953,000 which equal to the investment cost of Ningbo Phoenix therefore, there was no gain or loss on the disposal.
- (ii) Chengdu Shenrong was engaged in trading of motor vehicles. In 2004, Ningbo Phoenix entered into an agreement with Wang Chang Yu, a director of Chengdu Shenrong pursuant to which Ningbo Phoenix sold 51% equity interest in Chengdu Shenrong for approximately RMB4,239,000 which equal to the investment cost of Ningbo Phoenix, therefore, there was no gain or loss on the disposal.
- (iii) Beijing Shenyin was engaged in trading of motor vehicles. On 21 October 2004, Ningbo Phoenix entered into an agreement with Shan Dong Yin, a minority shareholder who held 28.96% of the registered capital of Beijing Shenyin pursuant to which Ningbo Phoenix sold 51% equity interest in Beijing Shenyin for approximately RMB6,663,000 which equal to the investment cost of Ningbo Phoenix, therefore, there was no gain or loss on the disposal.
- (iv) Jiaxing Shuimu was engaged in property development. On 2 November 2004, Ningbo Huadu entered into an agreement with Ningbo Chenggi, a minority shareholder who held 50% of the registered capital of Ningbo Huadu, to dispose of the 60% interest in Jiaxing Shuimu for RMB14,800,000. Pursuant to the agreement, the minority shareholder shall pay the consideration with 3 months from 2 November 2004. As at 31 December 2004, the minority shareholder paid RMB4,500,000, the outstanding balance of RMB10,300,000 was included in note 21 to the financial statements.
- (v) One 10 May 2003, Shanghai Shengfei entered into a tenancy agreement with Shanghai Automobile Repair Company, a 49% minority shareholder of Shanghai Shengfei to lease a parcel of land and properties for a period of 15 years commencing from 12 May 2003 for RMB600,000 per annum.

In addition, minority shareholders, namely Taizhou Giyuan Automobile Sales and Services Limited, Liang Xinghai, Liu Fei and a related party had provided guarantees for banking facilities granted to APG Group during the year ended 31 December 2004.

34. Operating lease commitments

APG Group leases certain of its office, show rooms under operating leases with terms ranging from one to twenty years. As at 31 December 2004, APG Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	—	—	5,535
Between one year and five years	—	—	16,012
After five years	—	—	51,256
	<u>—</u>	<u>—</u>	<u>51,256</u>
	<u>—</u>	<u>—</u>	<u>72,803</u>

35. Commitments

As at the balance sheet dates, APG Group had the following capital commitments:

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital commitments contracted for:			
Commitments in respect of purchases of fixed assets	—	—	4,857
	<u>—</u>	<u>—</u>	<u>4,857</u>

36. Pledge of assets

As at the balance sheet date, APG Group had pledged the following assets for its banking facilities.

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
– Land and buildings	—	—	13,529
– Bank deposits	—	—	111,508
– Properties under development	—	—	3,748
– Completed properties held for sales	—	—	897
– Other receivable	—	—	1,000
	<u>—</u>	<u>—</u>	<u>130,682</u>
	<u>—</u>	<u>—</u>	<u>130,682</u>

37. Post balance sheet events

On 11th March, 2005, APG entered into an acquisition agreement (the “Acquisition”) with American Compass Inc. (“ACI”), a shareholder of APG, whereby ACI has conditionally agreed to subscribe for the 35,569,384 new Class A common stocks of APG (the “Subscription Shares”). The Subscription Shares represent approximately 48.5% of the existing issued share capital of APG and approximately 32.66% of the enlarged share capital of APG upon completion of the Acquisition. The consideration will be satisfied by setting off the loan of approximately RMB46,350,000 (US\$5.6 million) advanced by ACI to APG under the loan agreement dated 20th September, 2004.

III. SUBSEQUENT FINANCIAL INFORMATION

No dividend has been declared or paid by to 31 December 2004.

Yours faithfully,

CCIF CPA LIMITED

Certified Public Accountants

Hong Kong

Chan Wai Dune, Charles

Practising Certificate Number P00712

The following is the text of a report, prepared for the purpose of incorporating in this circular, received from the reporting accountants of Ningbo Phoenix Group, CCIF CPA Limited, Certified Public Accountants, Hong Kong.

The Directors
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28 June 2005

Dear Sirs,

We set out below our report on the financial information relating to 寧波鳳凰汽車銷售服務有限公司 (“Ningbo Phoenix”) and its subsidiaries (hereinafter collectively referred to as “Ningbo Phoenix Group”) for the period from 30 September 2002 (date of incorporation) to 31 December 2002 and the two years ended 31 December 2003 and 2004 (the “Relevant Period”) (the “Financial Information”) for inclusion in the circular of Compass Pacific Holdings Limited (the “Company”) dated 28 June 2005 (the “Circular”).

Ningbo Phoenix is a company incorporated in the Peoples' Republic of China (the “PRC”) on 30 September 2002 with limited liability and principally engaged in the sale of automobiles and parts and investment holding. The paid up registered capital of Ningbo Phoenix is RMB135,357,883. Through its subsidiaries, Ningbo Phoenix Group operates dealerships in motor vehicles in the PRC and auto malls in Guangzhou, the PRC, and undertakes property development business.

For the purpose of this report, we have examined the audited financial statements or, where appropriate, the unaudited management accounts of Ningbo Phoenix Group prepared in accordance with the accounting principles generally accepted in Hong Kong for the Relevant Period or since their respective dates of incorporation or acquisition, where there is a shorter period and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountants” issued by the Hong Kong Institute of Certified Public Accountants.

The Financial Information set out in this report has been prepared based on the audited financial statements of Ningbo Phoenix Group for the Relevant Period.

The directors of Ningbo Phoenix Group are responsible for the preparation of the financial statements of Ningbo Phoenix Group which give a true and fair view. In preparing the financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of Ningbo Phoenix Group are also responsible for the Financial Information of Ningbo Phoenix Group as at and for each of the period ended 31 December 2002 and the two years ended 31 December 2003 and 2004. It is our responsibility to form an independent opinion on the Financial Information of Ningbo Phoenix Group.

As stated in notes 7 and 14 to the Financial Information, Ningbo Phoenix Group acquired four subsidiaries namely 上海大眾汽車成都申蓉銷售服務有限公司 (“Chengdu Shenrong”), 北京申銀汽車銷售有限公司 (“Beijing Shenyin”), 西安唐飛汽車銷售服務有限公司 (“Xian Tongfei”) and 上海大眾汽車天津東麗銷售服務有限公司 (“Tianjin Dongli”) in 2003 and formed a subsidiary namely 四川申蓉常瑞汽車貿易有限公司 (“Sichuan Shenrong”) in 2004 of which Chengdu Shenrong, Beijing Shenyin, Sichuan Shenrong and Tianjin Dongli were disposed of in 2004 and Xian Tongfei was deregistered in April 2004. Ningbo Phoenix Group acquired a 60% subsidiary namely 嘉興市水木清華置業有限公司 (“Jiaxing Shuimu”) on 26 October 2004. The entire interest in Jiaxing Shuimu was disposed of to a minority shareholder on 2 November 2004. Ningbo Phoenix Group does not have the books and records of these subsidiaries for consolidation of the financial statements of these subsidiaries from the dates of acquisitions or establishment up to the dates of disposals into the Financial Information of Ningbo Phoenix Group for the years ended 31 December 2003 and 2004 as the books and records had been handover to the purchasers upon disposals. This is not in accordance with the requirements of Statement of Standard Accounting Practice No. 32 issued by the Hong Kong Institute of Certified Public Accountants. Disclosures of the information on the non-consolidated subsidiaries' results attributable to Ningbo Phoenix Group as required by Schedule 10 of the Companies Ordinance have not been included in the Financial Information.

Except for the non-consolidation of the financial statements of the subsidiaries as stated in the preceding paragraph, in our opinion, the Financial Information together with the notes thereon, give for the purpose of this report, a true and fair view of the results of operations and cash flows of Ningbo Phoenix Group for the Relevant Period, and of the financial position of Ningbo Phoenix Group as at 31 December 2002, 2003 and 2004.

I. FINANCIAL INFORMATION

The Financial Information of Ningbo Phoenix Group for the Relevant Period prepared on the basis set out in Note 1 to the Financials Information is as follows:

Consolidated income statements

	<i>Note</i>	Period from 30 September 2002 to 31 December 2002	Year ended 31 December	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	–	145,557	1,121,704
Cost of sales		–	(133,725)	(1,067,093)
Gross profit		–	11,832	54,611
Other revenue	3	95	900	16,965
Distribution and selling expenses		–	(3,275)	(21,574)
General and administrative expenses		(1,354)	(18,558)	(31,492)
Other operating expenses	5	–	(8,640)	(5,020)
(Loss)/profit from operations	6	(1,259)	(17,741)	13,490
Gain on disposal of non-consolidated subsidiaries	7	–	–	10,000
Finance costs	8	–	(327)	(4,145)
(Loss)/profit before tax		(1,259)	(18,068)	19,345
Taxation	10	415	6,030	(9,437)
(Loss)/profit before minority interests		(844)	(12,038)	9,908
Minority interests		–	(364)	(3,125)
(Loss)/profit attributable to shareholders	11	(844)	(12,402)	6,783

Consolidated statements of changes in equity

	Paid up capital <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Accumulated losses <i>RMB'000</i>	Total <i>RMB'000</i>
As at 30 September 2002 (date of incorporation)	—	—	—	—
Issue of share capital	85,000	—	—	85,000
Loss attributable to shareholders	—	—	(844)	(844)
As at 31 December 2002	<u>85,000</u>	<u>—</u>	<u>(844)</u>	<u>84,156</u>
As at 1 January 2003	85,000	—	(844)	84,156
Issue of share capital	50,358	—	—	50,358
Loss attributable to shareholders	—	—	(12,402)	(12,402)
Transfer from retained profits	—	16	(16)	—
As at 31 December 2003	<u>135,358</u>	<u>16</u>	<u>(13,262)</u>	<u>122,112</u>
As at 1 January 2004	135,358	16	(13,262)	122,112
Profit attributable to shareholders	—	—	6,783	6,783
Transfer from retained profits	—	145	(145)	—
As at 31 December 2004	<u>135,358</u>	<u>161</u>	<u>(6,624)</u>	<u>128,895</u>

Consolidated balance sheets

		At 31 December		
		2002	2003	2004
	Notes	RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Intangible assets	12	–	2,180	7,660
Fixed assets	13	1,185	55,730	100,044
Interest in non-consolidated subsidiaries	14	–	29,855	–
Interest in associate	15	–	150	150
Investment securities	16	–	15	215
Deferred tax assets	34	415	8,272	10,224
		<u>1,600</u>	<u>96,202</u>	<u>118,293</u>
CURRENT ASSETS				
Inventories	17	–	103,117	139,532
Properties under development	18	–	–	18,807
Completed properties held for sales	19	–	–	1,995
Land held for future development	20	–	–	16,746
Due from a fellow subsidiary	21	–	–	1,220
Due from former subsidiaries	22	–	–	5,017
Due from immediate holding company	23	–	–	5,000
Due from minority shareholders	24	–	500	25,864
Due from non-consolidated subsidiaries	25	–	10,006	–
Deposits, prepayments and other receivables		29,268	47,407	50,725
Prepayments to suppliers		–	48,342	81,478
Trade receivables	26	–	25,739	65,359
Tax recoverable		–	950	7,111
Pledged bank deposits		–	147,142	111,508
Restricted bank balances		–	1,339	2,892
Cash and bank balances		54,121	44,668	47,822
		<u>83,389</u>	<u>429,210</u>	<u>581,076</u>
CURRENT LIABILITIES				
Trade payables	27	–	(14,175)	(72,927)
Bills payable, secured		–	(238,330)	(220,111)
Other payables and accruals		(233)	(27,407)	(44,813)
Bank loans, secured	28	–	(31,847)	(88,053)
Deposits received from customers		–	(27,768)	(55,176)
Due to minority shareholders	29	–	(13,899)	(11,868)
Due to immediate holding company	30	–	(10,047)	(5,672)
Due to a fellow subsidiary	31	–	–	(3,159)
Due to a non-consolidated subsidiary	32	–	(9,850)	–
Tax payable	33	–	–	(11,868)
		<u>(233)</u>	<u>(373,323)</u>	<u>(513,647)</u>
NET CURRENT ASSETS		<u>83,156</u>	<u>55,887</u>	<u>67,429</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>84,756</u>	<u>152,089</u>	<u>185,722</u>
MINORITY INTEREST		<u>(600)</u>	<u>(29,977)</u>	<u>(56,827)</u>
NET ASSETS		<u>84,156</u>	<u>122,112</u>	<u>128,895</u>
Represented by:				
PAID-UP CAPITAL	35	85,000	135,358	135,358
RESERVES	36	(844)	(13,246)	(6,463)
SHAREHOLDER'S EQUITY		<u>84,156</u>	<u>122,112</u>	<u>128,895</u>

Consolidated cash flow statements

	Period from 30 September 2002 to 31 December 2002	Year ended 31 December 2003	2004
	Notes	RMB'000	RMB'000
(Loss)/profit before tax	(1,259)	(18,068)	19,345
Depreciation	24	1,036	4,264
Amortisation of goodwill and negative goodwill	—	—	851
Bad debts	—	14	30
Provision for inventories	—	817	556
Provision for doubtful debts	—	7,555	2,794
Provision for completed properties held for sales	—	—	419
Gain on disposal of non-consolidated subsidiaries	—	—	(10,000)
Net loss on disposal of fixed assets	—	235	181
Other interest income	—	—	(781)
Bank interest income	(95)	(705)	(2,241)
Interest expenses	—	324	3,404
Operating (loss)/profit before working capital changes	(1,330)	(8,792)	18,822
Increase in inventories	—	(50,391)	(15,547)
Increase in amounts due from former subsidiaries	—	—	(217)
Increase in amount due from a fellow subsidiary	—	—	(1,220)
(Increase)/decrease in amounts due from non-consolidated subsidiaries	—	(10,006)	10,006
(Increase)/decrease in deposits, prepayments and other receivables	(29,268)	(7,113)	4,896
Increase in prepayment to suppliers	—	(15,808)	(13,596)
Increase in trade receivables	—	(9,555)	(39,995)
Decrease/(increase) in amount due from immediate holding company	—	10,047	(4,375)
Increase in trade payables	—	2,593	57,383
Increase in other tax payable	—	—	902
Increase in amount due from immediate holding company	—	—	(5,000)
Increase in amount due to a fellow subsidiary	—	—	3,159
Increase in amounts due from minority shareholders	—	(500)	(15,064)
Increase/(decrease) in bills payable	—	76,550	(18,219)
Increase/(decrease) in other payable and accruals	233	21,999	(17,465)
Increase in deposits received from customers	—	12,919	12,638
Cash (used in) generated from operations	(30,365)	21,943	(22,892)
Other interest income received	—	—	781
Bank interest income received	95	705	2,241
Interest paid	—	(324)	(3,404)
PRC income tax paid	—	(713)	(6,246)
Net cash (used in) generated from operating activities	(30,270)	21,611	(29,520)

		Period from 30 September 2002 to 31 December 2002	Year ended 31 December	
	Note	RMB'000	2003 RMB'000	2004 RMB'000
Investing activities				
Purchase of fixed assets		(1,209)	(32,202)	(47,522)
Purchase of subsidiaries	37	—	80,591	(6,842)
Purchase of non-consolidated subsidiaries		—	(29,855)	—
Payment for completed properties held for sales		—	—	(2,414)
Payment for properties under development		—	—	(15,059)
Payment for land held for future development		—	—	(16,746)
Purchase of investment securities		—	—	(200)
Proceeds on disposal of fixed assets		—	249	597
Proceeds from disposal/deregistration of non-consolidated subsidiaries		—	—	29,554
Decrease/(increase) in pledged and restricted bank balances		—	(148,481)	34,081
Net cash used in investing activities		<u>(1,209)</u>	<u>(129,698)</u>	<u>(24,551)</u>
Financing activities				
Issue of share capital		85,000	50,358	—
New bank loans		—	9,947	88,053
Repayment of bank loans		—	—	(31,847)
Capital contributed by minority shareholders		600	14,580	12,900
Increase/(decrease) in amount due to a non-consolidated subsidiary		—	9,850	(9,850)
Increase/(decrease) in amounts due to minority shareholders		—	13,899	(2,031)
Net cash generated from financing activities		<u>85,600</u>	<u>98,634</u>	<u>57,225</u>
Net increase/(decrease) in cash and cash equivalents		54,121	(9,453)	3,154
Cash and cash equivalents at the beginning of the period/year		<u>—</u>	<u>54,121</u>	<u>44,668</u>
Cash and cash equivalents at end of the period/year		<u>54,121</u>	<u>44,668</u>	<u>47,822</u>
Analysis of balances of cash and cash equivalents				
Cash and bank balances		<u>54,121</u>	<u>44,668</u>	<u>47,822</u>

II. NOTES TO THE FINANCIAL INFORMATION

1. Basis of presentation

As at the date of this report, Ningbo Phoenix has direct or indirect interest in the following subsidiaries:

Name	Place of incorporation or registration/ operations	Issued and fully paid registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
上海聖飛汽車銷售 服務有限公司 Shanghai Shengfei Automobile Sale and Services Ltd.	PRC	RMB5,000,000	90%	–	Trading of motor vehicles
上海環亞中進國際 貿易有限公司 Shanghai Huanya Zhougin International Trade Co. Ltd.	PRC	RMB1,000,000	50%	–	Trading of motor vehicles
廣州申飛汽車銷售 服務有限公司 Guangzhou Shenfei Automobile Sales and Services Co. Ltd.	PRC	RMB29,990,000	63.32%	–	Trading of motor vehicles
廣東眾大汽車維修 有限公司 Guangdong Zhongda Automobile Maintenance Co., Ltd	PRC	RMB2,000,000	–	56.99%	Trading of motor vehicles and providing repair and maintenance services
廣州申奧汽車銷售 服務有限公司 Guangzhou Shen Ao Automobile Sales and Services Co. Ltd. ("Guangzhou Shen Ao")	PRC	RMB5,000,000	–	56.99%	Trading of motor vehicles
廣東佳馬汽車銷售 服務有限公司 Guangdong Jiama Automobile Sales and Services Co Ltd ("Guangdong Jiama")	PRC	RMB5,000,000	–	56.99%	Trading of motor vehicles
廣州市申飛通立汽車 銷售服務有限公司 Guangzhou Shenfe Tongli Automobile Sales and Service Co., Ltd	PRC	RMB5,000,000	–	61.74%	Trading of motor vehicles
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 Shengfei")	PRC	RMB12,000,000	51%	–	Trading of motor vehicles

Name	Place of incorporation or registration/ operations	Issued and fully paid registered capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
寧波聖菲汽車銷售 服務有限公司 Ningbo Shengfei Automobile Sales and Services Ltd ("Ningbo Shengfei")	PRC	RMB10,000,000	51%	–	Trading of motor vehicles and providing repair and maintenance services
上海大眾汽車寧波 銷售服務有限公司 Shanghai Volkswagen Ningbo Sales and Services Company Ltd. ("Shanghai Ningbo")	PRC	RMB2,000,000	51%	–	Trading of motor vehicles
上海怡通汽車銷售 服務有限公司 Shanghai Yitong Automobile Sales Co., Ltd. ("Shanghai Yitong Sales")	PRC	RMB10,000,000	51%	–	Trading of motor vehicles
上海怡通汽車服務 有限公司 (Shanghai Yitong Automobile Service Co. Ltd) ("Shanghai Yitong")	PRC	RMB10,000,000	51%	–	Trading of motor vehicles and providing repair and maintenance services
上海大眾汽車台州 銷售服務有限公司 (Shanghai Volkswagen Taizhou Sales & Service Co. Ltd) ("Shanghai Taizhou")	PRC	RMB5,000,000	51%	–	Trading of motor vehicles and providing repair and maintenance services
寧波華都房地產 有限公司 ([寧波華都]) (Ningbo Huadu Real Enstate Co., Ltd) ("Ningbo Huadu") (Note i)	PRC	RMB6,038,153	50%	–	Property development and trading
金華市華都置業 有限公司 (Jinhua Huadu Property Co. Ltd) ("Jinhua Huadu") (Note ii)	PRC	RMB10,000,000	–	27.5%	Property development

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

(ii) Ningbo Huadu holds 55% interest in Junhua Huadu, therefore, Jinhua Huadu is a subsidiary of Ningbo Phoenix Group notwithstanding the effective interest is 27.5%.

The consolidated income statements and cash flow statements for the Relevant Period include the results of operations and cash flows of the companies of Ningbo Phoenix Group throughout the Relevant Period covered by this report or since their respect dates of incorporation or acquisition where there was a shorter period, except for those non-consolidated subsidiaries as set out in note 14 to the Financial Information.

The consolidated balance sheets of Ningbo Phoenix Group as at 31 December 2002, 2003 and 2004 have been prepared to present the financial position of the companies of Ningbo Phoenix Group as at 31 December 2002, 2003 and 2004, except for those non-consolidated subsidiaries as set out in note 14 to the Financial Information.

All significant transactions and balances within the Ningbo Phoenix Group have been eliminated on consolidation.

2. Principal accounting policies

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable provisions of the Rules Governing the Listing of Securities of The Stock Exchange. A summary of the principal accounting policies adopted by Ningbo Phoenix Group (which is consistent with the accounting policies of the Group) is set out below.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effect for accounting periods beginning on or after 1 January 2005.

The Group has not adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already assessed the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis.

(b) Subsidiaries

A subsidiary is a company whose financial and operating policies Ningbo Phoenix Group controls, directly or indirectly, so as to obtain benefits from its activities.

The interest in subsidiary is stated at cost less any impairment losses.

(c) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the assets to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Leasehold buildings	2% or over the lease terms, whichever is shorter
Leasehold improvements	20% or over the lease terms, whichever is shorter
Furniture, fixtures and equipment	10%-20%
Motor vehicles	10%-20%
Plant and machineries	10%-20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(d) Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December. The results of subsidiaries acquired or disposed of during the year included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate.

All material intercompany transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any unamortised goodwill or goodwill taken to reserves and which was not previously charged or recognised in the consolidation income statement.

Minority interests represents the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the interests in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over Ningbo Phoenix Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

(f) Construction-in-progress

Construction-in-progress is stated at cost which comprises construction costs, purchased costs and other related expenses incurred in connection with the construction of plant and machinery for own use, less any provision for impairment loss. No depreciation is provided for construction-in-progress until they are completed and put into production.

(g) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(h) Associate

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The consolidated income statement includes Ningbo Phoenix Group's share of the results of associate for the year, and the consolidated balance sheet includes Ningbo Phoenix Group's share of the net assets of the associate and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless Ningbo Phoenix Group has incurred obligations or guaranteed obligations in respect of the associate.

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

(i) Investment securities

Investment securities are stated in the balance sheet at cost less any provisions for impairment losses. Provisions are made when the fair value of such equity securities has declined below the carrying amounts, unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the income statement.

Provisions against the carrying value of investment securities are written back to income when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes costs of raw materials determined using the first-in, first-out method of closing and, in cases of work-in-progress and finished goods, also direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal. Provision is made to obsolete, slow-moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity, if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(l) Foreign currencies

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

(m) Revenue recognition

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

- (i) revenue from the sales of motor vehicles, on the transfer of ownership, which generally coincides with the time of delivery; and
- (ii) revenue from properties developed for sale is recognised on the execution of a binding sales agreement or when the relevant occupation permit or certificate of compliance is issued by the building authority, whichever is the later.
- (iii) revenue from properties held for sale is recognised on the execution of a binding sales agreement. Payments received from the purchasers prior to this stage are recorded as deposits received on sales of properties and are grouped under current liabilities.
- (iv) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable

(n) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(o) Trade receivables

Provision is made against trade receivables to the extent that they are considered to be doubtful. Trade receivables in the balance sheet is stated net of such provision.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of cash management.

(q) Provisions and contingent liabilities

A provision is recognised when there is present obligation, legal or constructive, as a result of a past event and it is probable (i.e. more likely than not) than an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

A contingent liability is a possible obligation that arises from past events and 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 Ningbo Phoenix Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

3. Turnover and revenue

An analysis of the turnover and other revenue is as follows:

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover			
Sales of automobiles and parts	—	145,557	1,103,889
Sales of properties	—	—	17,815
	—	145,557	1,121,704
Other revenue			
Advertising income	—	—	95
Bank interest income	95	705	2,241
Compensation income	—	—	48
Consultancy income	—	—	1,895
Exchange gain	—	6	—
Gain on disposal of fixed assets	—	—	164
Government subsidy	—	—	210
Insurance income	—	—	5,783
Other interest income	—	—	781
Service fee income	—	—	3,596
Subsidy income	—	—	272
Sundry income	—	189	1,459
Testing income	—	—	421
	95	900	16,965
Total revenue	95	146,457	1,138,669

4. Segment information

Segment information is presented in respect of Ningbo Phoenix Group's business segments. Business information is chosen as the primary reporting format because this is more relevant to Ningbo Phoenix Group's internal financial reporting. Geographic segment information is not presented as Ningbo Phoenix Group operates predominantly in the PRC.

(a) An analysis of the turnover and results by business segment is as follows:

	Period from 30 September 2002 to 31 December 2002 RMB'000	Year ended 31 December 2003 RMB'000	2004 RMB'000
Turnover:			
– Distribution of motor vehicles	–	145,557	1,103,889
– Property development	–	–	17,815
	<u>–</u>	<u>145,557</u>	<u>1,121,704</u>
Segment results:			
– Distribution of motor vehicles	–	(854)	19,338
– Property development	–	–	7,216
	<u>–</u>	<u>(854)</u>	<u>26,554</u>
Unallocated (expenses)/income, net	(1,259)	(16,887)	(13,064)
(Loss)/profit from operations	(1,259)	(17,741)	13,490
Gain on disposal of non-consolidated subsidiaries	–	–	10,000
Finance costs	–	(327)	(4,145)
	<u>(1,259)</u>	<u>(18,068)</u>	<u>19,345</u>
(Loss)/profit before tax	(1,259)	(18,068)	19,345
Taxation	415	6,030	(9,437)
	<u>(844)</u>	<u>(12,038)</u>	<u>9,908</u>
(Loss)/profit before minority interests	(844)	(12,038)	9,908
Minority interests	–	(364)	(3,125)
	<u>–</u>	<u>(364)</u>	<u>(3,125)</u>
(Loss)/profit attributable to shareholders	<u>(844)</u>	<u>(12,402)</u>	<u>6,783</u>
Depreciation and amortisation			
– Distribution of motor vehicles	–	1,036	3,234
– Property development	–	–	179
– Unallocated	–	–	851
	<u>–</u>	<u>1,036</u>	<u>4,264</u>
Provision for doubtful debts			
– Distribution of motor vehicles	–	7,555	2,290
– Property development	–	–	504
	<u>–</u>	<u>7,555</u>	<u>2,794</u>

(b) Additional information on business segments

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Segment assets:			
– Distribution of motor vehicles	84,574	473,484	550,817
– Property development	–	–	86,090
	84,574	473,484	636,907
Unallocated assets	415	51,928	62,462
Total assets	<u>84,989</u>	<u>525,412</u>	<u>699,369</u>
Segment liabilities:			
– Distribution of motor vehicles	(233)	(339,527)	(436,397)
– Property development	–	–	(44,683)
	(233)	(339,527)	(481,080)
Unallocated liabilities	–	(33,796)	(32,567)
Total liabilities	<u>(233)</u>	<u>(373,323)</u>	<u>(513,647)</u>
Capital expenditure			
– Distribution of motor vehicles	1,209	44,628	47,270
– Property development	–	–	252
	<u>1,209</u>	<u>44,628</u>	<u>47,522</u>

5. Other operating expenses

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Bad debts	–	14	30
Provision for doubtful debts	–	7,555	2,794
Loss on disposal of fixed assets	–	235	345
Provision for completed properties held for sales	–	–	419
Amortisation of goodwill and negative goodwill	–	–	851
Provision for inventories	–	817	556
Others	–	19	25
	<u>–</u>	<u>8,640</u>	<u>5,020</u>

6. (Loss)/profit from operations

The (loss)/profit from operations was arrived at after charging the following:

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Charging:			
Auditors' remuneration	—	—	5
Depreciation on owned assets	24	1,036	4,264
Minimum lease payments under operating leases	—	1,741	5,572
Staff costs			
— Salaries, bonuses, allowances and benefits in kind	—	4,373	13,497
	<u>—</u>	<u>4,373</u>	<u>13,497</u>

7. Gain on disposal of non-consolidated subsidiaries

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Sales proceeds	—	—	34,754
Cost of investments	—	—	(24,754)
Gain on disposal	<u>—</u>	<u>—</u>	<u>10,000</u>

As stated in note 14, Ningbo Phoenix acquired Shanghai Volkswagen Chengdu Shenrong Sales & Service Co., Ltd. ("Chengdu Shenrong") (上海大眾汽車成都申蓉銷售服務有限公司), Beijing Shenyin Automobile Sales Co., Ltd ("Beijing Shenyin") 北京申銀汽車銷售有限公司, Shanghai Volkswagen Tianjin Dongli Sales & Service Co., Ltd ("Tianjin Dongli") (上海大眾汽車天津東麗銷售服務有限公司), for approximately RMB14,854,000 during the year ended 31 December 2003. In addition, Ningbo Phoenix formed 西安唐飛汽車銷售服務有限公司 ("Xian Tongfei") and 四川申蓉常瑞汽車貿易有限公司 ("Chengdu Shenrong") and contributed registered capital of RMB9,900,000 and RMB5,100,000 respectively. Chengdu Shenrong, Beijing Shenyin, Tianjin Dongli and Sichuan Shenrong were engaged in distribution of automobile. Xian Tongfei had not commenced any business.

Ningbo Phoenix disposed of Chengdu Shenrong on 22 September 2004, Beijing Shenyin on 21 October 2004, Tianjin Dongli on 21 October 2004 and Sichuan Shenrong on 29 September 2004 respectively to 王常裕 (Wang Chang Yu) a director of Chengdu Shenrong, 沈東鷹 (Shan Dong Yin) a minority shareholder who held 28.96% of the registered capital of Beijing Shenyin, 張玉新 (Zhang Yuxin) a minority shareholder who held 29% of the registered capital of Tianjin Dongli and 上海藍深實業有限公司 (Shanghai Lanshan Enterprises Co., Ltd) an independent third party at book value for a total of approximately RMB19,954,000. As Xian Tongfei was located far away from Ningbo Phoenix Group's distribution network such as Ningbo, Shanghai and Guangzhou, therefore, the directors decided to close Xian Tongfei. As such, Xian Tongfei was deregistered in April 2004.

On 26 October 2004, Ningbo Phoenix acquired a 50% subsidiary namely Ningbo Huadu from 張偉軍 (Chang Weijun). Ningbo Huadu had a 60% subsidiary, namely 嘉興市水木清華置業有限公司 (“Jiaxing Shuimu”) which was engaged in property development. Subsequent to the acquisition, 寧波城之源置業有限公司 (Ningbo Chenggi Yuan Property Co., Ltd) (“Ningbo Chenggi”) (formerly 寧波經濟技術開發區城市建設總公司) (Ningbo Economic and Technical Development Zone Urban Construction Company) made an offer to Ningbo Phoenix Group to purchase the interest in Jiaxing Shuimu, therefore, on 2 November 2004 Ningbo Huadu disposed of the entire interest in Jiaxing Shuimu to Ningbo Chenggi for RMB14,800,000 with investment cost of RMB4,800,000, therefore, Ningbo Phoenix Group recorded a gain of RMB10,000,000 on the disposal.

8. Finance costs

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Bank charges	—	3	741
Interest on bank loans	—	314	3,128
Other interest	—	10	276
	<u>—</u>	<u>327</u>	<u>4,145</u>

9. Directors’ and senior executives’ remuneration

- a) No remunerations were paid or payable to directors for the Relevant Period. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.
- b) The five highest paid individuals in Ningbo Phoenix Group for the Relevant Period are as follows:

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Salaries, allowances and benefits in kind	608	2,000	1,733
Retirement benefits scheme contribution	—	—	—
	<u>608</u>	<u>2,000</u>	<u>1,733</u>

The number of individuals whose remuneration fell within the following bands is as follows:

	Number of individuals		
	Period from 30 September 2002 to 31 December 2002	2003	2004
Nil to HK\$1,000,000	<u>5</u>	<u>5</u>	<u>5</u>

10. Taxation

No provision for Hong Kong profits tax had been made as Ningbo Phoenix Group did not generate any assessable profits arising in Hong Kong during the Relevant Period.

Taxation in the consolidated income statement represents:

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Current tax			
PRC enterprise income tax	–	1,827	11,389
Deferred tax	(415)	(7,857)	(1,952)
	<u> </u>	<u> </u>	<u> </u>
Tax (credit)/charge	<u>(415)</u>	<u>(6,030)</u>	<u>9,437</u>

A reconciliation between tax (credit)/charge and accounting profit/(loss) at applicable tax rates is as follows:

	Period from 30 September 2002 to 31 December 2002 <i>RMB'000</i>	Year ended 31 December 2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
(Loss)/profit before tax	<u>(1,259)</u>	<u>(18,068)</u>	<u>19,345</u>
Notional tax on (loss)/profit before tax, calculated at the rates in the tax jurisdictions concerned	(415)	(6,847)	7,045
Tax effect of tax losses not recognised	<u>–</u>	<u>817</u>	<u>2,392</u>
	<u> </u>	<u> </u>	<u> </u>
Tax (credit)/charge	<u>(415)</u>	<u>(6,030)</u>	<u>9,437</u>

11. (Loss)/profit attributable to shareholders

The loss for the period ended 31 December 2002 and year ended 31 December 2003 dealt with in the financial statements of Ningbo Phoenix were approximately RMB844,000 and RMB7,759,000 respectively. The profit for the year ended 31 December 2004 dealt with in the financial statements of Ningbo Phoenix amounted to approximately RMB8,518,000.

12. Intangible assets

	Goodwill RMB'000	Negative goodwill RMB'000	Total RMB'000
Cost			
At 1 30 September 2002 (date of incorporation) and at 31 December 2002	—	—	—
At 1 January 2003	—	—	—
Arising from acquisition of subsidiaries	2,788	(608)	2,180
At 31 December 2003	2,788	(608)	2,180
At 1 January 2004	2,788	(608)	2,180
Arising from acquisition of subsidiaries	6,331	—	6,331
At 31 December 2004	9,119	(608)	8,511
Accumulated amortisation			
At 30 September 2002 (date of incorporation) and at 31 December 2002	—	—	—
At 1 January 2003	—	—	—
Charge for the year	—	—	—
At 31 December 2003	—	—	—
At 1 January 2004	—	—	—
Charge for the year	(912)	61	(851)
At 31 December 2004	(912)	61	(851)
Net book value			
At 31 December 2004	8,207	(547)	7,660
At 31 December 2003	2,788	(608)	2,180
At 31 December 2002	—	—	—

13. Fixed assets

	Land and buildings <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost							
Additions and at 31 December 2002	316	–	–	267	–	626	1,209
Accumulated depreciation							
Charge for the period and at 31 December 2002	1	–	–	4	–	19	24
Net book value							
At 31 December 2002	<u>315</u>	<u>–</u>	<u>–</u>	<u>263</u>	<u>–</u>	<u>607</u>	<u>1,185</u>
Cost							
At 1 January 2003	316	–	–	267	–	626	1,209
Acquisition of subsidiaries	7,330	12,426	421	4,748	3,780	3,584	32,289
Additions	100	27,675	122	1,144	918	2,243	32,202
Disposals	(684)	–	–	–	(32)	(1,045)	(1,761)
At 31 December 2003	<u>7,062</u>	<u>40,101</u>	<u>543</u>	<u>6,159</u>	<u>4,666</u>	<u>5,408</u>	<u>63,939</u>
Accumulated depreciation							
At 1 January 2003	1	–	–	4	–	19	24
Acquisition of subsidiaries	3,516	–	18	1,926	1,355	1,611	8,426
Charge for the year	170	–	14	330	167	355	1,036
Disposals	(449)	–	–	–	(30)	(798)	(1,277)
At 31 December 2003	<u>3,238</u>	<u>–</u>	<u>32</u>	<u>2,260</u>	<u>1,492</u>	<u>1,187</u>	<u>8,209</u>
Net book value							
At 31 December 2003	<u>3,824</u>	<u>40,101</u>	<u>511</u>	<u>3,899</u>	<u>3,174</u>	<u>4,221</u>	<u>55,730</u>
Cost							
At 1 January 2004	7,062	40,101	543	6,159	4,666	5,408	63,939
Acquisition of subsidiaries	239	–	–	43	–	3,493	3,775
Additions	–	33,937	1,263	5,100	2,782	4,440	47,522
Disposals	(1,004)	–	–	(3)	–	(1,488)	(2,495)
Transfer from construction in progress	27,463	(27,463)	–	–	–	–	–
At 31 December 2004	<u>33,760</u>	<u>46,575</u>	<u>1,806</u>	<u>11,299</u>	<u>7,448</u>	<u>11,853</u>	<u>112,741</u>
Accumulated depreciation							
At 1 January 2004	3,238	–	32	2,260	1,492	1,187	8,209
Acquisition of subsidiaries	18	–	–	20	–	1,903	1,941
Charge for the year	951	–	332	903	836	1,242	4,264
Disposals	(518)	–	–	(1)	–	(1,198)	(1,717)
At 31 December 2004	<u>3,689</u>	<u>–</u>	<u>364</u>	<u>3,182</u>	<u>2,328</u>	<u>3,134</u>	<u>12,697</u>
Net book value							
At 31 December 2004	<u>30,071</u>	<u>46,575</u>	<u>1,442</u>	<u>8,117</u>	<u>5,120</u>	<u>8,719</u>	<u>100,044</u>

a) The land and buildings at their net book value are analysed as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Held in the PRC on:			
– Leases of 10 to 50 years	–	3,525	29,788
– Leases of over 50 years	315	299	283
	<u>315</u>	<u>3,824</u>	<u>30,071</u>

b) Included in the land and buildings, there were certain properties held by Ningbo Phoenix Group the ownership of which are as follows:

- i) There are collectively held and allocated land amounted to approximately RMB910,000 and the buildings on the land amounted to approximately RMB1,465,000, totaling approximately RMB2,375,000 (2003: RMB2,992,000) registered in name of Linhai Automobile Repair Factory (“Linhai Repair”). According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Linhai Repair wound up on 24 November 2003 and all the assets under the name of Linhai Repair had been injected to Shanghai Taizhou, a subsidiary of Ningbo Phoenix Group and Shanghai Taizhou has obtained the long term use rights of the land and the building ownership rights of the buildings are legally owned by Shanghai Taizhou. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off for the land and buildings is necessary.
- ii) There are no title ownership certificates for certain buildings with net book value of approximately RMB6,116,000 as at 31 December 2004 held by Shanghai Yitong Sales, a subsidiary of Ningbo Phoenix Group. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Shanghai Yitong Sales is in the course of applying for the real estate ownership certificate. As Shanghai Yitong Sales has obtained the land use right certificate for the land, based on the legal opinion issued by the PRC lawyer, the directors considered that there are no obstacle to prevent Shanghai Yitong Sales to obtain the said real estate ownership certificate. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off of the land and buildings is necessary.
- iii) There are no title ownership certificates for certain buildings with net book value of approximately RMB3,666,000 (2003: approximately RMB212,000) as at 31 December 2004 held by Shanghai Ningbo. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), Shanghai Ningbo is in the course of applying for the real estate ownership certificate. As Shanghai Ningbo has obtained the land use right certificate for the land, the PRC lawyer considered that there is no obstacle in obtaining the said real estate ownership certificate. Therefore, the directors consider that it is appropriate to recognize the land and buildings in the Financial Information and no provision or write off of the land and buildings is necessary.

- iv) There are certain properties with net book value of approximately RMB9,749,000 as at 31 December 2004 constructed by Shanghai Shengfei which was on the land leased from Shanghai Automobile Repair Company (“Shanghai Repair”) with a term of 15 years. According to a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), 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, Shanghai Repair is applying for the real estate ownership. As Shanghai Repair has obtained the land use right certificate for the land, the PRC lawyer considered that there is no obstacle in obtaining the said real estate ownership certificate. Notwithstanding the legal owner of the properties is vested with Shanghai Repair, the directors considered that Shanghai Shengfei has the right to use the properties during the lease period under the lease agreement, therefore, it is appropriate to recognize the properties in the Financial Information and depreciate the properties according to the lease terms.
- c) Included in the construction in progress, there were certain properties under construction held by Ningbo Phoenix Group as follows:

There are properties under construction with net book value of approximately RMB44,713,000 (2003: approximately RMB18,189,000) as at 31 December 2004 developed by Guangzhou Shenfei, a subsidiary, 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 is 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 a PRC legal opinion issued by Beijing Forever Law Firm (北京市昌久律師事務所), 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 the real estate ownership certificates for the properties, the PRC lawyer considered that there is no obstacle in obtaining the real estate ownership certificates, therefore, the directors considered it is appropriate to recognize the properties under construction.

14. Interest in non-consolidated subsidiaries

		2002	2003	2004
	Note	RMB'000	RMB'000	RMB'000
Unlisted shares, at cost				
上海大眾汽車成都申蓉銷售服務有限公司 ("Chengdu Shenrong")	(i)	—	4,239	—
四川申蓉常瑞汽車貿易有限公司 ("Sichuan Shenrong")	(ii)	—	5,100	—
西安唐飛汽車銷售服務有限公司 ("Xian Tongfei")	(iii)	—	9,900	—
北京申銀汽車銷售有限公司 ("Beijing Shenyin")	(iv)	—	6,663	—
上海大眾汽車天津東麗銷售服務有限公司 ("Tianjin Dongli")	(v)	—	3,953	—
		<u>—</u>	<u>29,855</u>	<u>—</u>

Note:

- (i)

In 2003, Ningbo Phoenix acquired Chengdu Shenrong from Wang Chang Yu for RMB4,239,000, Chengdu Shenrong was established in the PRC and engaged in trading of motor vehicles. Ningbo Phoenix held 51% equity interest in Chengdu Shenrong. In 2004, Ningbo Phoenix disposed of the entire interest in Chengdu Shenrong to Wang Chang Yu, details of which are set out in note 38(b) to the Financial Information.
- (ii)

On 23 October 2003, Ningbo Phoenix entered into an agreement with a third party to form Sichuan Shenrong. Pursuant to the agreement, Ningbo Phoenix contributed RMB5,100,000 to form Sichuan Shenrong. Sichuan Shenrong was established in the PRC on 8 January 2004, and engaged in trading of motor vehicles. Ningbo Phoenix held 51% equity interest in Sichuan Shenrong. In 2004, Ningbo Phoenix disposed of the entire interest in Sichuan Shenrong to 上海藍深實業有限公司 (Shanghai Lanshan Enterprises Co., Ltd) at RMB5,100,000.
- (iii)

Xian Tongfei was established in the PRC on 13 May 2003. Ningbo Phoenix contributed RMB9,900,000 and held 99% equity interest in Xian Tongfei. Xian Tongfei had ceased business and deregistered in April 2004.
- (iv)

On 13 November 2003, Ningbo Phoenix acquired Beijing Shenyin from Shan Dong Yin for approximately RMB6,663,000. Beijing Shenyin was established in the PRC and engaged in trading of motor vehicles. Ningbo Phoenix held 51% equity interest in Beijing Shenyin. On 21 October 2004, Ningbo Phoenix dispose of the entire interest in Beijing Shenyin to Shan Dong Yin at RMB6,662,948, details of which are set out in note 38(c) to the Financial Information.
- (v)

In 2003, Ningbo Phoenix acquired Tianjin Dongli from Zhang Yuxin for approximately RMB3,953,000, Tianjin Dongli was established in the PRC and engaged in trading of motor vehicles. Ningbo Phoenix held 51% equity interest in Tianjin Dongli. In 2004, Ningbo Phoenix disposed of the entire interest in Tianjin Dongli to Zhang Yuxin, details of which are set out in note 38(a) to the Financial Information.

The books and records of the above subsidiaries had been handover to the purchasers upon disposals of the subsidiaries, therefore, there was no sufficient information to consolidate the financial statements of these subsidiaries in the Financial Information.

15. Interest in an associate

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>—</u>	<u>150</u>	<u>150</u>

The details of the associate were as follows:

Name	Place of incorporation	% of interest held	Principal activities
上海怡通汽車修理有限公司 (Shanghai Yitong Automobile Repairing Co., Ltd)	PRC	30%	Repair motor vehicle

16. Investment securities

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investments, at cost	—	—	50
Fund, at cost	—	—	150
Club membership	—	15	15
	<u>—</u>	<u>15</u>	<u>15</u>
	<u><u>—</u></u>	<u><u>15</u></u>	<u><u>215</u></u>

17. Inventories

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Finished goods	—	104,440	141,763
Provision	—	(1,323)	(2,231)
	<u>—</u>	<u>(1,323)</u>	<u>(2,231)</u>
	<u><u>—</u></u>	<u><u>103,117</u></u>	<u><u>139,532</u></u>

No inventories were stated at net realisable value.

18. Properties held under development

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost			
Held under long-term lease	—	—	15,059
Held under medium-term lease	—	—	3,748
	<u>—</u>	<u>—</u>	<u>18,807</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>18,807</u></u>

19. Completed properties held for sale

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At cost	—	—	2,414
Less: provision	—	—	(419)
	<u>—</u>	<u>—</u>	<u>(419)</u>
	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>1,995</u></u>

The aggregate carrying value of completed properties held for sale that were carried at net realisable value amounted to approximately RMB419,000 (2003: Nil, 2002: Nil)

20. Land held for future development

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
At Cost	<u>—</u>	<u>—</u>	<u>16,746</u>

The land held for future development was located at Jinhua, Zhejiang Province, the PRC and held for a lease period of 40 years. On 1 November 2004, Jinhua Huadu, a subsidiary of Ningbo Phoenix Group, appointed Mr. Zhang Minghai (“Mr. Zhang”) and Mr. Lin Zhou (“Mr. Lin”) to purchase the land. Mr. Zhang and Mr. Lin are minority shareholders who held 25% and 20% of the registered capital of Jinhua Huadu, a 27.5% subsidiary of Ningbo Phoenix Group.

Pursuant to a stated-owned land use rights grant contract entered into between the Land Resources Bureau of Jinhua and Mr. Zhang and Mr. Lin, the total consideration for the was RMB16,746,000 of which RMB12,000,000 were paid as at 31 December 2004 and the balance of RMB4,746,000 was included in other payable.

Subsequent to the balance sheet date on 27 May 2005, the Land Resources Bureau of Jinhua issued a land use right certificate to Jinhua Huadu.

21. Due from a fellow subsidiary

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Ningbo Meilide Consulting Co. Ltd. (寧波美立德諮詢有限公司)	<u>—</u>	<u>—</u>	<u>1,220</u>

The amount was secured, interest free and without fixed terms of repayment.

22. Due from former subsidiaries

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Beijing Shenyin	—	—	6
Chengdu Shenrong	—	—	789
Jiaxing Shuimu	<u>—</u>	<u>—</u>	<u>4,222</u>
	<u>—</u>	<u>—</u>	<u>5,017</u>

The amounts were secured, interest free and without fixed terms of repayment. The amount due from Jiaxing Shuimu has been fully settled subsequent to 31 December 2004.

23. Due from immediate holding company

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Ningbo Meili Asset Management Co. Ltd. (寧波美立資產管理有限公司)	—	—	5,000

The amount was secured, interest free and without fixed terms of repayment.

24. Due from minority shareholders

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Ningbo Chenggi (<i>Note i</i>)	—	—	10,300
Wang Xingkang (<i>Note ii</i>)	—	500	1,564
Liang Xinghui (<i>Note iii</i>)	—	—	4,000
Jiang Ruzhi (<i>Note iv</i>)	—	—	500
Liu Fei (<i>Note v</i>)	—	—	9,500
	—	500	25,864

Note:

- (i) The amount represents balance of consideration receivable from disposal of a subsidiary namely Jiaying Shuimu and was due for settlement on 2 February 2005. Pursuant to a repayment schedule issued by Ningbo Chenggi, RMB5,000,000 will be settled by 30 July 2005 and the remaining balance of RMB5,300,000 will be settled by 31 December 2005. In the opinion of the directors, as Ningbo Chenggi will settle the balance by the end of 2005, therefore, no provision for the amount due is necessary.
- (ii) The amount was interest free, unsecured and had no fixed terms of repayment. Wang Xingkang held 49% registered capital of Shanghai Ningbo, a 51% subsidiary of APG Group and 24% of the registered capital of Ningbo Shengfei, a 51% subsidiary of Ningbo Phoenix Group.
- (iii) The amount was interest free, unsecured and had no fixed terms of repayment. Liang Xinghui held 10% registered capital of Shanghai Taizhou, a 51% subsidiary of Ningbo Phoenix Group.
- (iv) The amount was interest free, unsecured and had no fixed terms of repayment. Jiang Ruzhi held 10% registered capital of Guangdong Jima, a 56.99% subsidiary of Ningbo Phoenix Group.
- (v) The amount was interest free, unsecured and had no fixed terms of repayment. Liu Fei held 10% registered capital of Guangzhou Shen Ao, a 56.99% subsidiary of Ningbo Phoenix Group.

25. Due from non-consolidated subsidiaries

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Beijing Shenyin	—	6	—
Chengdu Shenrong	—	10,000	—
	—	10,006	—

The amounts were secured, interest free and without fixed terms of repayment.

26. Trade receivables

The credit period granted to customers normally ranges from 30 to 90 days. The aging analysis of the trade receivables is as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
0 to 30 days	—	4,390	26,464
31 to 60 days	—	1,139	1,622
61 to 90 days	—	20,031	13,687
91 to 120 days	—	770	5,171
121 to 180 days	—	347	3,076
181 to 365 days	—	128	16,520
1 to 2 years	—	180	453
Over 2 years	—	4	21
	—	26,989	67,014
Less: provision	—	(1,250)	(1,655)
	—	25,739	65,359

27. Trade payables

The aging analysis of trade payables is as follows:

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
0 to 30 days	—	5,913	32,454
31 to 60 days	—	45	6,913
61 to 90 days	—	7,658	4,742
91 to 120 days	—	16	75
121 to 180 days	—	13	20,166
181 to 365 days	—	—	877
1 to 2 years	—	165	7,696
Over 2 years	—	365	4
	—	14,175	72,927

28. Bank loans, secured

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Bank loans wholly repayable within one year	—	31,847	88,053

The bank loans were secured by the following:

- (i)

Leasehold land and buildings with carrying value of approximately RMBNil, RMBNil and RMB13,529,000 as at 31 December 2002, 2003 and 2004 respectively;
- (ii)

Properties under development of approximately RMB3,748,000 as at 31 December 2004 (2002 and 2003: Nil);
- (iii)

Completed properties held for sales of approximately RMB 897,000 as at 31 December 2004 (2002 and 2003: Nil);
- (iv)

Other receivable of approximately RMB1,000,000 as at 31 December 2004 (2002 and 2003: Nil);
- (v)

Bank deposits of approximately RMB 18,600,000 and RMB 18,600,000 as at 31 December 2003 and 2004 (2002: Nil); and
- (vi)

Corporate guarantees executed by a minority shareholder, a related party and a third party.

29. Due to minority shareholders

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
上海市汽車修理公司	—	400	1,000
Liang Xinghui	—	650	—
台州之遠汽車銷售服務有限公司 (Taizhou Giyuan Automobile Sales and Services Ltd)	—	12,127	8,596
Zhang Minghai	—	—	900
Liu Fei	—	722	1,372
	<u>—</u>	<u>13,899</u>	<u>11,868</u>

The amounts were secured, interest free and without fixed terms of repayment.

30. Due to immediate holding company

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Ningbo Meili Asset Management Co. Ltd. (寧波美立資產管理有限公司)	<u>—</u>	<u>10,047</u>	<u>5,672</u>

The amount was secured, interest free and without fixed terms of repayment.

31. Due to a fellow subsidiary

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Ningbo Meilide Consulting Co. Ltd. (寧波美立德諮詢有限公司)	<u>-</u>	<u>-</u>	<u>3,159</u>

The amount was secured, interest free and without fixed terms of repayment.

32. Due to a non-consolidated subsidiary

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Xian Tongfei	<u>-</u>	<u>9,850</u>	<u>-</u>

The amount was secured, interest free and without fixed terms of repayment.

33. Tax payable

	At 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Enterprise income tax	-	-	10,966
Other tax	<u>-</u>	<u>-</u>	<u>902</u>
	<u>-</u>	<u>-</u>	<u>11,868</u>

34. Deferred tax assets

Deferred tax assets have been recognised in respect of these losses from certain companies of Ningbo Phoenix Group as the directors considered that it is probable that sufficient taxable profit will be available against which the unused tax losses can be utilized by Ningbo Phoenix Group.

The movement in deferred tax assets is as follows:

	2002	2003	2004
	RMB'000	RMB'000	RMB'000
At beginning of the period/year	-	415	8,272
Credited to consolidated income statement	<u>415</u>	<u>7,857</u>	<u>1,952</u>
At end of the period/year	<u>415</u>	<u>8,272</u>	<u>10,224</u>

35. Paid up capital

The paid up capital represented the nominal value of registered capital of Ningbo Phoenix.

	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Registered capital			
Issued and fully paid:			
At beginning of the period/year	—	85,000	135,358
Issue of new capital	85,000	50,358	—
	<u>85,000</u>	<u>135,358</u>	<u>135,358</u>
At end of the period/year	<u>85,000</u>	<u>135,358</u>	<u>135,358</u>

Ningbo Phoenix was established on 30 September 2002 with a registered capital of RMB85,000,000. Pursuant to a resolution passed in the shareholders' meeting on 11 September 2003, the registered capital was increased to RMB105,000,000. Pursuant to a resolution passed in the shareholders' meeting on 19 November 2003, the registered capital was further increased to RMB135,357,800.

36. Reserves

	Statutory surplus reserve	Accumulated losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 30 September 2002 (date of incorporation)	—	—	—
Loss attributable to shareholders	<u>—</u>	<u>(844)</u>	<u>(844)</u>
At 31 December 2002	<u>—</u>	<u>(844)</u>	<u>(844)</u>
At 1 January 2003	—	(844)	(844)
Loss attributable to shareholders	—	(12,402)	(12,402)
Transfer from accumulated losses	<u>16</u>	<u>(16)</u>	<u>—</u>
At 31 December 2003	<u>16</u>	<u>(13,262)</u>	<u>(13,246)</u>
At 1 January 2004	16	(13,262)	(13,246)
Profit attributable to shareholders	—	6,783	6,783
Transfer from accumulated losses	<u>145</u>	<u>(145)</u>	<u>—</u>
At 31 December 2004	<u>161</u>	<u>(6,624)</u>	<u>(6,463)</u>

37. Notes to the consolidated cash flow statements

Purchase of subsidiaries

	Period from 30 September 2002 to 31 December 2002	Year ended 31 December 2003	2004
NET ASSETS ACQUIRED			
Fixed assets	—	23,863	1,834
Properties under development	—	—	3,748
Investment securities	—	15	—
Interest in an associate	—	150	—
Inventories	—	53,543	21,424
Prepayment to suppliers	—	32,534	19,540
Due from a former subsidiary	—	—	4,800
Deposits, prepayments and other receivables	—	17,331	10,662
Tax recoverable	—	2,064	338
Trade receivables	—	17,448	—
Cash and bank balances	—	98,428	11,012
Bank loan	—	(21,542)	—
Bills payable	—	(161,780)	—
Trade payables	—	(11,582)	(1,369)
Other payables and accruals	—	(5,175)	(34,871)
Deposit received from customers	—	(14,849)	(14,770)
Long term loan	—	(358)	—
	—	30,090	22,348
Minority interest	—	(14,433)	(10,825)
	—	15,657	11,523
Consideration	—	(17,837)	(17,854)
Goodwill	—	(2,180)	(6,331)
ANALYSIS OF NET CASH INFLOW/(OUTFLOW) IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES			
Cash consideration paid	—	(17,837)	(17,854)
Bank balances and cash acquired	—	98,428	11,012
NET CASH INFLOW/(OUTFLOW) IN RESPECT OF THE ACQUISITION OF SUBSIDIARIES	—	80,591	(6,842)

38. Related party transactions

During the Relevant Period, Ningbo Phoenix Group have the following significant transactions with related parties:

Name	Nature of transaction	Note	Period from 30 September 2002 to 31 December 2002	Year ended 31 December 2003	2004
			RMB'000	RMB'000	RMB'000
a) Zhang Yuxin	Proceeds from disposal of Tianjin Dongli	(i)	–	–	3,953
b) Wang Chang Yu	Proceeds from disposal of Chengdu Shenrong	(ii)	–	–	4,239
c) Shan Dong Yin	Proceeds from disposal of Beijing Shenyin	(iii)	–	–	6,663
d) Ningbo Chenggi	Proceeds from disposal of Jiaxing Shuimu	(iv)	–	–	14,800
e) Shanghai Automobile Repair Company	Rental charge for leasing of properties	(v)	–	400	600

Note:

- (i) Tianjin Dongli was engaged in trading of motor vehicles. In 2004, Ningbo Phoenix entered into an agreement with Zhang Yuxin, a minority shareholder who held 29% of the registered capital of Tianjin Dongli pursuant to which Ningbo Phoenix sold 51% equity interest in Tianjin Dongli for approximately RMB3,953,000 which equal to the investment cost of Ningbo Phoenix therefore, there was no gain or loss on the disposal.
- (ii) Chengdu Shenrong was engaged in trading of motor vehicles. In 2004, Ningbo Phoenix entered into an agreement with Wang Chang Yu, a director of Chengdu Shenrong pursuant to which Ningbo Phoenix sold 51% equity interest in Chengdu Shenrong for approximately RMB4,239,000 which equal to the investment cost of Ningbo Phoenix, therefore, there was no gain or loss on the disposal.
- (iii) Beijing Shenyin was engaged in trading of motor vehicles. On 21 October 2004, Ningbo Phoenix entered into an agreement with Shan Dong Yin, a minority shareholder who held 28.96% of the registered capital of Beijing Shenyin pursuant to which Ningbo Phoenix sold 51% equity interest in Beijing Shenyin for approximately RMB6,663,000 which equal to the investment cost of Ningbo Phoenix, therefore, there was no gain or loss on the disposal.
- (iv) Jiaxing Shuimu was engaged in property development. On 2 November 2004, Ningbo Huadu entered into an agreement with Ningbo Chenggi, a minority shareholder who held 50% of the registered capital of Ningbo Huadu, to dispose of the 60% interest in Jiaxing Shuimu for RMB14,800,000. Pursuant to the agreement, the minority shareholder shall pay the consideration with 3 months from 2 November 2004. As at 31 December 2004, the minority shareholder paid RMB4,500,000, the outstanding balance of RMB10,300,000 was included in note 24 to the financial statements.
- (v) On 10 May 2003, Shanghai Shengfei entered into a tenancy agreement with Shanghai Automobile Repair Company, a 49% minority shareholder of Shanghai Shengfei to lease a parcel of land and properties for a period of 15 years commencing from 12 May 2003 for RMB600,000 per annum.

In addition, minority shareholders namely Taizhou Giyuan Automobile Sales and Services Limited, Liang Xinghai, Liu Fei and a related party had provided guarantees for banking facilities granted to Ningbo Phoenix Group for the year ended 31 December 2004. The related party also provided a guarantee during the year ended 31 December 2003.

39. Operating lease commitments

Ningbo Phoenix Group leases certain of its office, show rooms under operating leases with terms ranging from one to twenty years. As at 31 December 2004, Ningbo Phoenix Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	–	4,723	5,535
Between one year and five years	–	14,479	16,012
After five years	–	45,595	51,256
	<u>–</u>	<u>64,797</u>	<u>72,803</u>

40. Commitments

As at the balance sheet dates, Ningbo Phoenix Group had the following capital commitments:

	At 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital commitments contracted for:			
Commitments in respect of purchases of fixed assets	–	9,809	4,857
	<u>–</u>	<u>9,809</u>	<u>4,857</u>

41. Pledge of assets

As at the balance sheet date, Ningbo Phoenix Group had pledged the following assets for its banking facilities.

	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Land and buildings	–	–	13,529
Bank deposits	–	147,142	111,508
Property under development	–	–	3,748
Completed properties held for sales	–	–	897
Other receivable	–	–	1,000
	<u>–</u>	<u>147,142</u>	<u>130,682</u>

III. SUBSEQUENT FINANCIAL INFORMATION

No dividend has been declared or paid by to 31 December 2004.

Yours faithfully,
CCIF CPA LIMITED
Certified Public Accountants
 Hong Kong
Chan Wai Dune, Charles
 Practising Certificate Number P00712

(A) Letter on Unaudited Pro Forma Financial Information of the Enlarged Group

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, CCIF CPA Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma balance sheet of the Enlarged Group as set out in this Appendix.

The Directors
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28 June 2005

Dear Sirs,

We set out below our report on the unaudited pro forma financial information set out in Section B of Appendix IV to the circular of Compass Pacific Holdings Limited (the “Company”) dated 28 June 2005 (the “Unaudited Pro Forma Financial Information”), which has been prepared by the Company solely for illustrative purposes to provide information on how the proposed acquisition of American Phoenix Group, Inc. (individually referred to as “APG”, together with its subsidiaries referred to as “APG Group”) may have affected the historical financial information of the Company and its subsidiaries (collectively the “Group”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction thereto.

Responsibilities

It is the sole responsibility of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

Where applicable, we conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom. Our work consisted primarily of comparing the historical financial information contained therein with the source documents

provided by the management, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company.

Our work does not constitute an audit or review made in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the directors' judgements and assumptions, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 31 December 2004 or any future date, or the results of operations or cash flows of the Group for the year ended 31 December 2004 or for any future period.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 29 of Chapter 4 of the Listing Rules.

Yours faithfully,
CCIF CPA Limited
Certified Public Accountants
Hong Kong
Chan Wai Dune, Charles
Practising Certificate Number P00712

(B) Unaudited Pro Forma Financial Information of The Enlarged Group

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Company's proposed acquisition of APG Group (the "Acquisition"). The Company together with its subsidiaries is referred to as (the "Group").

The accompanying unaudited pro forma financial information of the Enlarged Group as at 31 December 2004 illustrate the effect of the Acquisition on (a) the unaudited pro forma combined balance sheet of the Enlarged Group as if the Acquisition had been completed on 31 December 2004 and (b) the unaudited pro forma combined income statement and cash flow statement of the Enlarged Group as if the Acquisition had taken place on 1 January 2004.

The accompanying unaudited pro forma financial information of the Enlarged Group is based upon the historical consolidated financial statements of APG Group and the historical consolidated financial statements of the Group after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised in the accompanying notes.

The accompanying unaudited pro forma financial information of the Enlarged Group is based on a number of assumptions, estimates, uncertainties and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to describe the actual financial position or results of operations or cash flows of the Enlarged Group that would have been attained had the Acquisition been completed. Further, the accompanying unaudited pro forma financial information of the Enlarged Group does not purport to predict the Enlarged Group's future financial position or results of operations.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the audited financial information of APG Group as set out in Appendix II, the audited financial information of the Group as set out in Appendix I and other financial information included elsewhere in this circular.

(i) Unaudited pro forma combined income statement of the Enlarged Group

	Audited consolidated income statement of the Group for the year ended 31 December 2004 <i>HK\$'000</i>	Audited consolidated income statement of APG Group for the year ended 31 December 2004 <i>HK\$'000</i> (Note 1)	Pro forma combined <i>HK\$'000</i>	Pro forma adjustment <i>HK\$'000</i> (Note 2)	Pro forma Enlarged Group <i>HK\$'000</i>
Turnover	6,758	1,058,211	1,064,969	–	1,064,969
Cost of sales	(5,382)	(1,006,731)	(1,012,113)	–	(1,012,113)
Gross profit	1,376	51,480	52,856	–	52,856
Other revenues	2,283	16,497	18,780	–	18,780
Operating expenses	(48,016)	(60,200)	(108,216)	(7,211)	(115,427)
(Loss)/profit before operations	(44,357)	7,777	(36,580)	(7,211)	(43,791)
Gain on disposal of non-consolidated subsidiaries	–	9,434	9,434	–	9,434
Finance costs	–	(4,569)	(4,569)	–	(4,569)
Profit/(loss) before tax	(44,357)	12,642	(31,715)	(7,211)	(38,926)
Taxation	–	(8,471)	(8,471)	–	(8,471)
(Loss)/profit before minority interests	(44,357)	4,171	(40,186)	(7,211)	(47,397)
Minority interests	3,442	(2,628)	814	–	814
(Loss)/profit attributable to shareholders	<u>(40,915)</u>	<u>1,543</u>	<u>(39,372)</u>	<u>(7,211)</u>	<u>(46,583)</u>

Notes:

- (1) The figures of APG Group were denominated in RMB and had been translated into Hong Kong dollars at the conversion exchange of RMB1.06 to HK\$1.
- (2) The adjustment represents amortisation of goodwill arising from the acquisition of APG Group over a period of 10 years.

(ii) Unaudited pro forma combined cash flow statement of the Enlarged Group

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004 HK\$'000	Audited consolidated cash flow statement of APG Group for the year ended 31 December 2004 HK\$'000 (Note 1)	Pro forma Combined HK\$'000	Pro forma Adjustment HK\$'000 (Note 2)	Pro forma Enlarged Group HK\$'000
Cash flows from operating activities					
(Loss)/profit before tax	(44,357)	12,642	(31,715)	–	(31,715)
Depreciation	4,097	4,345	8,442	–	8,442
Amortization of goodwill	–	2,002	2,002	–	2,002
Provision for obsolete and slow moving inventories	–	525	525	–	525
Provision for doubtful debts	354	2,636	2,990	–	2,990
Bad debt	–	28	28	–	28
Net loss/(gain) on disposal of fixed assets	(15)	171	156	–	156
Loss on write off of property, plant and equipment	5,644	–	5,644	–	5,644
Impairment of property, plant and equipment	1,506	–	1,506	–	1,506
Gain on disposal of non-consolidated subsidiaries	–	(9,434)	(9,434)	–	(9,434)
Bank interest income	(1,551)	(2,500)	(4,051)	–	(4,051)
Other interest income	–	(737)	(737)	–	(737)
Interest expenses	–	3,870	3,870	–	3,870
Provision for completed properties held for sales	–	395	395	–	395
Operating (loss)/profit before working capital changes	(34,322)	13,943	(20,379)	–	(20,379)
(Increase)/decrease in inventories	96	(14,667)	(14,571)	–	(14,571)
Increase in amounts due from former subsidiaries	–	(205)	(205)	–	(205)
Increase in amounts due from minority shareholders	–	(14,211)	(14,211)	–	(14,211)
Decrease in deposits, prepayments and other receivables	1,589	20,597	22,186	–	22,186
Decrease in amount due from/to a connected party	(726)	–	(726)	–	(726)
Increase in amount due from non-consolidated subsidiaries	–	9,440	9,440	–	9,440
Increase in prepayment to suppliers	–	(12,827)	(12,827)	–	(12,827)
(Increase)/decrease in trade receivables	127	(37,731)	(37,604)	–	(37,604)
Increase in trade payables	77	54,135	54,212	–	54,212
Increase in other tax payable	–	851	851	–	851
Decrease in bills payable	–	(17,188)	(17,188)	–	(17,188)
Decrease in other payable and accruals	(134)	(9,994)	(10,128)	–	(10,128)
Increase in deposits received from customers	–	11,923	11,923	–	11,923

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**UNAUDITED PRO FORMA FINANCIAL
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	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004 <i>HK\$'000</i>	Audited consolidated cash flow statement of APG Group for the year ended 31 December 2004 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma Combined <i>HK\$'000</i>	Pro forma Adjustment <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Cash used in generated from operations	(33,293)	4,066	(29,227)	–	(29,227)
Other interest income received	–	737	737	–	737
Interest received	718	2,500	3,218	–	3,218
Interest paid	–	(3,525)	(3,525)	–	(3,525)
PRC income tax paid	–	(6,241)	(6,241)	–	(6,241)
Net cash used in operating activities	<u>(32,575)</u>	<u>(2,463)</u>	<u>(35,038)</u>	<u>–</u>	<u>(35,038)</u>
Investing activities					
Purchase of fixed assets	(2,781)	(45,889)	(48,670)	–	(48,670)
Purchase of subsidiaries	–	(64,003)	(64,003)	–	(64,003)
Payment for completed properties held for sales	–	(2,277)	(2,277)	–	(2,277)
Payment for properties under development	–	(14,207)	(14,207)	–	(14,207)
Payment for land held for future development	–	(15,798)	(15,798)	–	(15,798)
Acquisition of land held for resale	(1,636)	–	(1,636)	–	(1,636)
Purchase of investment securities	–	(189)	(189)	–	(189)
Acquisition of long term investments	(21,423)	–	(21,423)	–	(21,423)
Proceeds on disposal deregistration of non-consolidated subsidiaries	–	27,881	27,881	–	27,881
Increase in other loan receivable	(1,071)	–	(1,071)	–	(1,071)
Increase in loan receivable from an investee company	(43,624)	–	(43,624)	43,624	–
Proceeds on disposal of fixed assets	2,023	1,994	4,017	–	4,017
Proceeds on disposal of investment securities	–	573	573	–	573
Increase in pledged and restricted bank balances	–	32,152	32,152	–	32,152
Net cash used in investing activities	<u>(68,512)</u>	<u>(79,763)</u>	<u>(148,275)</u>	<u>43,624</u>	<u>(104,651)</u>

	Audited consolidated cash flow statement of the Group for the year ended 31 December 2004 <i>HK\$'000</i>	Audited consolidated cash flow statement of APG Group for the year ended 31 December 2004 <i>HK\$'000</i> <i>(Note 1)</i>	Pro forma Combined <i>HK\$'000</i>	Pro forma Adjustment <i>HK\$'000</i> <i>(Note 2)</i>	Pro forma Enlarged Group <i>HK\$'000</i>
Financing activities					
Issue of share capital	–	78,392	78,392	–	78,392
New bank loans	–	38,874	38,874	–	38,874
New loan from a shareholder	–	43,726	43,726	(43,624)	102
Repayment of amount due to a director	–	(45,679)	(45,679)	–	(45,679)
Increase in amount due to minority shareholders	–	2,329	2,329	–	2,329
Repayment of amount due to a non-consolidated subsidiary	–	(9,292)	(9,292)	–	(9,292)
Capital contributed by minority shareholders	–	11,792	11,792	–	11,792
Net cash generated from financing activities	–	120,142	120,142	(43,624)	76,518
Net increase/(decrease) in cash and cash equivalents	(101,087)	37,916	(63,171)	–	(63,171)
Cash and cash equivalents at the beginning of the year	132,915	7,571	140,486	–	140,486
Cash and cash equivalents at the end of the year	<u>31,828</u>	<u>45,487</u>	<u>77,315</u>	<u>–</u>	<u>77,315</u>
Analysis of balances of cash and cash equivalents					
Cash and bank balances	<u>31,828</u>	<u>45,487</u>	<u>77,315</u>	<u>–</u>	<u>77,315</u>

Notes:

- 1) The figures of APG Group were denominated in RMB and had been translated into Hong Kong dollars at the conversion exchange rate of RMB1.06 to HK\$1
- 2) Being elimination of loan from American Compass Inc to APG.

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL

INFORMATION OF THE ENLARGED GROUP

(iii) Unaudited pro forma combined balance sheet of the Enlarged Group

	Audited consolidated balance sheet of the Group as at 31 December 2004	Audited consolidated balance sheet of the Group as at 31 December 2004	Pro Forma Combined	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma Adjustments	Pro Forma Adjustment	Pro Forma Enlarged Group
	Historical	Historical	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Note 1)		(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	
NON-CURRENT ASSETS									
Fixed assets	14,249	95,577	109,826	–	–	–	–	–	109,826
Goodwill	–	18,017	18,017	–	–	–	–	72,113	90,130
Rental, utilities and other deposits	650	–	650	–	–	–	–	–	650
Interest in APG	–	–	–	44,227	–	654	137,198	(182,079)	–
Interest in associates	–	142	142	–	–	–	–	–	142
Investment in securities	21,423	203	21,626	–	–	–	–	(21,423)	203
Deferred tax assets	–	10,089	10,089	–	–	–	–	–	10,089
Other loan receivables	2,259	–	2,259	–	–	–	–	–	2,259
Total non-current assets	38,581	124,028	162,609	44,227	–	654	137,198	(131,389)	213,299
CURRENT ASSETS									
Inventories	71	131,634	131,705	–	–	–	–	–	131,705
Properties under development	–	17,742	17,742	–	–	–	–	–	17,742
Properties held for sales	1,636	1,882	3,518	–	–	–	–	–	3,518
Land for future development	–	15,798	15,798	–	–	–	–	–	15,798
Trade receivables	–	61,660	61,660	–	–	–	–	–	61,660
Prepayment, deposits and other receivables	15,320	49,317	64,637	–	–	–	–	–	64,637
Loan and interest receivables from an investee company	44,227	–	44,227	(44,227)	–	–	–	–	–
Prepayment to suppliers	–	76,866	76,866	–	–	–	–	–	76,866
Due from a connected party	661	–	661	–	–	–	–	–	661
Due from former subsidiaries	–	4,733	4,733	–	–	–	–	–	4,733
Due from minority shareholders	–	24,400	24,400	–	–	–	–	–	24,400
Tax recoverable	–	6,756	6,756	–	–	–	–	–	6,756
Pledged bank deposits	700	105,196	105,896	–	–	–	–	–	105,896
Restricted bank balances	–	2,728	2,728	–	–	–	–	–	2,728
Cash and bank balances	31,828	45,488	77,316	–	–	–	–	–	77,316
Total current assets	94,443	544,200	638,643	(44,227)	–	–	–	–	594,416

APPENDIX IV

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP

	Audited consolidated balance sheet of the Group as at 31 December 2004 Historical HK\$'000	Audited consolidated balance sheet of APG Group as at 31 December 2004 Historical HK\$'000 (Note 1)	Pro Forma Combined HK\$'000	Pro Forma Adjustments HK\$'000 (Note 2)	Pro Forma Adjustments HK\$'000 (Note 3)	Pro Forma Adjustments HK\$'000 (Note 4)	Pro Forma Adjustment HK\$'000 (Note 5)	Pro Forma Adjustment HK\$'000 (Note 6)	Pro Forma Enlarged Group HK\$'000
CURRENT LIABILITIES									
Trade payables	(701)	(68,799)	(69,500)	–	–	–	–	–	(69,500)
Bills payable, secured	–	(207,652)	(207,652)	–	–	–	–	–	(207,652)
Other payables and accruals	(13,807)	(42,389)	(56,196)	–	–	(654)	–	–	(56,850)
Deposits received from customers	–	(52,052)	(52,052)	–	–	–	–	–	(52,052)
Due to minority shareholders	–	(15,442)	(15,442)	–	–	–	–	–	(15,442)
Due to a director	–	(3,123)	(3,123)	–	–	–	–	–	(3,123)
Other loans	–	(211)	(211)	–	–	–	–	–	(211)
Loan from a shareholder	–	(44,072)	(44,072)	–	44,072	–	–	–	–
Bank loans, secured	–	(83,069)	(83,069)	–	–	–	–	–	(83,069)
Tax payable	–	(11,192)	(11,192)	–	–	–	–	–	(11,192)
Total current liabilities	(14,508)	(528,001)	(542,509)	–	44,072	(654)	–	–	(499,091)
Net current assets	79,935	16,199	96,134	(44,227)	44,072	(654)	–	–	95,325
Total assets less current liabilities	118,516	140,227	258,743	–	44,072	–	137,198	(131,389)	308,624
Non-current liabilities									
Minority interest	(12,059)	(52,910)	(64,969)	–	–	–	–	–	(64,969)
NET ASSETS	106,457	87,317	193,774	–	44,072	–	137,198	(131,389)	243,655
CAPITAL AND RESERVES									
Share capital	189,545	86,192	275,737	–	44,072	–	54,879	(130,264)	244,424
Share premium	262,529	–	262,529	–	–	–	82,319	–	344,848
Statutory reserve	–	137	137	–	–	–	–	(137)	–
Exchange movement reserve	(2,304)	–	(2,304)	–	–	–	–	–	(2,304)
(Accumulated losses) /retained profits	(343,313)	988	(342,325)	–	–	–	–	(988)	(343,313)
Reserves	(83,088)	1,125	(81,963)	–	–	–	82,319	(1,125)	(769)
Shareholder's funds	106,457	87,317	193,774	–	44,072	–	137,198	(131,389)	243,655

Notes:

1. The audited consolidated figures of APG Group were denominated in RMB and had been translated into Hong Kong dollars at the conversion exchange rate of RMB1.06 to HK\$1.
2. The adjustment represents conversion of loan to APG into Subscription Shares in APG.
3. The adjustment represents new shares issued by APG to American Compass Inc. upon conversion of the loan.
4. The adjustment represents loan interest receivable for the period from 1 January 2005 to 11 March 2005 classified as investment cost in APG.
5. The adjustment represents 548,792,265 new shares at HK\$0.25 each issued by the Company for the acquisition of 55,875,144 class A common stocks of APG.
6. The adjustment represents elimination of investment cost in APG upon consolidation.

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this circular received from Sallmanns (Far East) Limited, an independent valuer, in connection with its valuation as at 31 March 2005 of the property interests of the APG Group and the Group.

**Sallmanns**

Corporate valuation and consultancy

www.sallmanns.com



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28 June 2005

The Board of Directors
Compass Pacific Holdings Limited
Suites 612-617, Hutchison House
10 Harcourt Road
Central, Hong Kong

Dear Sirs,

In accordance with your instructions to value the properties in which American Phoenix Group Inc. ("APG") and its subsidiaries (hereinafter together referred to as the "APG Group") have interests to be acquired by Compass Pacific Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC") and in which the Group has interests in Hong Kong and the United States of America (the "USA") respectively, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 31 March 2005 (the "date of valuation").

Our valuations of the property interests represent the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

We have valued the property interests nos. 1 and 4 in Group I, property interests in Groups II, IV and V by the direct comparison approach assuming sale of the property interests in their existing state with the benefit of immediate vacant possession and by making reference to comparable sale transactions as available in the relevant markets.

Where, due to the nature of the buildings and structures of the properties in the PRC, there are no market sales comparables readily available, the property interests nos. 2 and 3 in Group I and in Group III have been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as “an estimate of the market value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.” This method has been used due to the lack of an established market upon which to base comparable transactions and is a method of using current replacement costs to arrive at the value to the business in occupation of the property as existing at the date of valuation.

We have attributed no commercial value to the property interests in Group VI and in Groups VII and VIII, which are leased by the APG Group and the Group respectively, due either to the short-term nature of the leases or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Our valuations have been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charges, mortgages or amounts owing on any of the property interests valued nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Appraisal and Valuation Standards (5th Edition May 2003) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition January 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the APG Group and instructing party and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates, Real Estate Title Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing titles to the property interests in the PRC and any material encumbrances that might be attached to the property interests or any lease amendments. We have relied considerably on the advice given by the APG Group’s PRC legal adviser – Beijing Forever Law Firm (北京市昌久律師事務所), concerning the validity of the APG Group’s titles to the property interests. According to the PRC legal opinion, properties with proper legal titles can be freely leased, mortgaged and transferred in accordance with the PRC laws and legislations. With regards to the leased properties, the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the properties but have assumed that the site areas shown on the documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the services.

We have had no reason to doubt the truth and accuracy of the information provided to us by the Group and the APG Group. We have also been advised by the Group and the APG Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB). The exchange rate adopted in our valuations is approximately USD1=RMB8.253 which was the prevailing exchange rate at the date of valuation.

Our valuations are summarised below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of

Sallmanns (Far East) Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 22 years’ experience in the valuation of properties in the PRC and 25 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I – Property interests held and occupied by the APG Group in the PRC

		Capital Value in existing state as at 31 March 2005 RMB
No.	Property	
1.	Units 703 and 704 Block 18 Mudan Sub-district Beilun District Ningbo Zhejiang Province The PRC	210,000
2.	A parcel of land, various buildings and structures located at Liren Village Zhoupu Town Nanhui District Shanghai The PRC	13,400,000
3.	Three parcels of land and various buildings located at Chengguan Jiangnan Industrial Zone Linhai Taizhou Zhejiang Province The PRC	89,000
4.	Unit 1026 Ningbo Baoshuiqu Commercial Building Beilun District Ningbo Zhejiang Province The PRC	290,000
Sub-total:		13,989,000

Group II – Property interests held for sale by the APG Group in the PRC

No.	Property	Capital Value
		in existing state as at 31 March 2005 RMB
5.	Units on Level 1 of Blocks D, F and G and Carport nos. 1, 5 and 6 Haiqin Yuan Beilun District Ningbo Zhejiang Province The PRC	1,520,000
6.	Unit A#37-202 and 4 storerooms and 24 carports Chengshiluzhou Haihong Yuan Songhuajiang Road Beilun District Ningbo Zhejiang Province The PRC	200,000
Sub-total:		1,720,000

Group III – Property interest held under development by the APG Group in the PRC

No.	Property	Capital Value
		in existing state as at 31 March 2005 RMB
7.	Huadu Apartments Beilun District Ningbo Zhejiang Province The PRC	41,900,000
	Sub-total:	41,900,000

Group IV – Property interests held for future development by the APG Group in the PRC

No.	Property	Capital Value
		in existing state as at 31 March 2005 RMB
8.	A parcel of land located at the East of Kangqi Street and North of Kaiyuan Road Jindongxincheng District Jinhua Zhejiang Province The PRC	19,500,000
9.	A parcel of land located at He Dong Village Yong Jiang County Jiangbei District Ningbo Zhejiang Province The PRC	3,950,000
	Sub-total:	23,450,000

Group V – Property interest held for future development by the Group in the USA

No.	Property	Capital Value
		in existing state as at 31 March 2005 <i>RMB</i>
10.	LA County Assessor’s Parcel No. 3023-026-038 Palmdale California USA	1,730,000
Sub-total:		1,730,000

Group VI – Property interests leased and occupied by the APG Group in the PRC

No.	Property	Capital Value
		in existing state as at 31 March 2005 RMB
11.	Unit 2903-F Ningbo Baoshuiqu International Development Building Beilun District Ningbo Zhejiang Province The PRC	No commercial value
12.	Units 501, 504 and 505 Level 5 Shanghai Hotel Office Block No. 505 Wulumuqi North Road Jingan District Shanghai The PRC	No commercial value
13.	Unit 1801 Vanke Commercial Plaza No. 37 Shuicheng South Road Shanghai The PRC	No commercial value
14.	Podium level Shanghai Jiangsu Hotel No. 888 Wuning Road Shanghai The PRC	No commercial value
15.	Units 107, 108 and 109 No. 505 Wuning Road Shanghai The PRC	No commercial value
16.	Unit B309 No. 459 Futexiyi Road Shanghai Waigaoqiao Baoshui District Shanghai The PRC	No commercial value

		Capital Value in existing state as at 31 March 2005 RMB
No.	Property	
17.	A parcel of land, Level 1 and Level 2 of Block 2 No. 597 Tianshan Road Changning District Shanghai The PRC	No commercial value
18.	A parcel of land located at the intersection of Zhongxin South Road and Huancheng South Road Jiangdong District Ningbo Zhejiang Province The PRC	No commercial value
19.	C-7 and an ancillary office and C-9 and an ancillary office Section C of Ningbo Century Carcity Showroom Jiangdong District Ningbo Zhejiang Province The PRC	No commercial value
20.	A parcel of land and various buildings located at No. 178 Xingning Road Jiangdong District Ningbo Zhejiang Province The PRC	No commercial value
21.	A parcel of land located at Hai Nan Village Dong Jiao Town Fang Cun District Guangzhou The PRC	No commercial value
Sub-total:		Nil

Group VII – Property interest leased and occupied by the Group in Hong Kong

		Capital Value in existing state as at 31 March 2005 RMB
No.	Property	
22.	Suites 612-617 6th Floor Hutchison House No. 10 Harcourt Road Central Hong Kong	No commercial value
Sub-total:		Nil

Group VIII – Property interest leased and occupied by the Group in the USA

		Capital Value in existing state as at 31 March 2005 RMB
No.	Property	
23.	55 S Lake Avenue Suite 630 Pasadena California USA	No commercial value
Sub-total:		Nil
Total:		82,789,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the APG Group in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 31 March 2005
			RMB
1. Units 703 and 704 Block 18 Mudan Sub-district Beilun District Ningbo Zhejiang Province The PRC	The property comprises two units on the 7th floor of a 9-storey residential building completed in about 1998. The units have a total gross floor area of approximately 85.08 sq.m. The land use rights of the property to an apportioned site area of approximately 9.45 sq.m. were granted for a term of 70 years and expire on 3 December 2064.	The property is currently occupied by Ningbo Phoenix Automobile Distribution and Services Co., Ltd. (“Ningbo Phoenix”) (寧波鳳凰汽車銷售服務有限公司) for office purpose.	210,000

- Notes:
- Pursuant to a State-owned Land Use Rights Certificate, Ningkai Guo Yong (2003) Zi Di No. 486, issued by the People’s Government of Economic and Technical Development District Administration Authority of Ningbo on 29 January 2003, the land use rights of a parcel of land with an apportioned site area of approximately 9.45 sq.m. were granted to Ningbo Phoenix for a term of 70 years expiring on 3 December 2064 for residential uses.
 - Pursuant to a Building Ownership Certificate, Yong Fang Quan Zheng Lun (Kai) Zi Di No. 2002007847, issued by Real Estate Administration Bureau of Ningbo, the building ownership rights of 2 units with a total gross floor area of approximately 85.08 sq.m. are owned by Ningbo Phoenix.
 - The property was purchased by Ningbo Phoenix at a consideration of RMB316,128.80 on 10 October 2002.
 - Ningbo Phoenix is a wholly-owned subsidiary of the APG Group.
 - We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - the land use rights and building ownership rights of the property are legally owned by Ningbo Phoenix;
 - the property is not subject to mortgage or any other encumbrances; and
 - Ningbo Phoenix can freely lease, mortgage and transfer the property in accordance with the PRC laws and legislations.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
2. A parcel of land, various buildings and structures located at Liren Village Zhoupu Town Nanhui District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 9,912 sq.m. on which are erected 8 buildings completed in about 2003. The buildings have a total area of approximately 7,915.54 sq.m. The buildings include 2 offices, a garage, a workshop, a showroom, a staff quarter and a guardhouse. The land use rights of the property were granted for a term of 40 years expiring on 20 September 2042.	The property is currently occupied by Shanghai Yitong Automobile Sales Co., Ltd. (“Shanghai Yitong”) (上海怡通汽車銷售有限公司) for sales office and garage purposes. A showroom with a gross floor area of approximately 1,306.45 sq.m. is currently occupied by Shanghai Yitong Automobile Services Co., Ltd. (“Yitong Service”) (上海怡通汽車服務有限公司) at nil rental.	13,400,000

Notes:

1. Pursuant to a Real Estate Title Certificate, Hu Fang Di Nanhui (2003) Di No. 004755, issued by Shanghai Housing and Land Resources Administrative Bureau on 28 April 2003, the land use rights of a parcel of land with a site area of approximately 9,912 sq.m. and the building ownership rights of the building with a gross floor area of approximately 4,310.5 sq.m. were granted to Shanghai Yitong for a term of 40 years expiring on 20 September 2042 for office uses. The land was purchased on 15 July 2002 at a consideration of RMB1,400,980.
2. In the valuation of this property, we have not attributed any commercial value to 7 buildings with a total gross floor area of approximately 3,605.04 sq.m. which have not been granted with any proper title certificate. However, for reference purposes, we are of the opinion that the depreciated replacement cost of these buildings as at the date of valuation would be RMB5,400,000 assuming all relevant title ownership certificates had been obtained.
3. As per our inspection, a showroom with a gross floor area of approximately 1306.45 sq.m. is currently occupied by Yitong Service, a fellow subsidiary of the APG Group, at nil rental.
4. Shanghai Yitong is a 51% interest-owned subsidiary of the APG Group.
5. Yitong Service is a 51% interest-owned subsidiary of the APG Group.
6. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the parcel of land and the building as mentioned in note 1 are legally owned by Shanghai Yitong;
 - (ii) the property is not subject to mortgage or any other encumbrances;
 - (iii) Shanghai Yitong can freely lease, mortgage and transfer the parcel of land and the building as mentioned in note 1 in accordance with the PRC laws and legislations;
 - (iv) the 7 buildings as mentioned in note 2 were constructed by Shanghai Yitong and are under application for relevant title ownership certificates. Shanghai Yitong owns the land use rights of the property. The application for commencement of the construction work complied with legal procedures and relevant application fee for applying the title ownership certificates had been paid up. (Government of Zhoupu Town of Nanhui District Shanghai has issued a document to act as a proof, which is a legal document.) It is considered that Shanghai Yitong has the rights to occupy, use, handle and lease the 7 buildings with regards to the PRC laws and regulations and can obtain relevant title ownership certificates without legal impediment; and
 - (v) Yitong Service enjoys the rights to use the showroom mentioned in note 3.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
3. Three parcels of land and various buildings located at Chengguan Jiangnan Industrial Zone Linhai Taizhou Zhejiang Province The PRC	The property comprises three parcels of conjoining land with a total site area of approximately 10,917.64 sq.m. Land parcel no. 1 has a site area of approximately 8,027.51 sq.m. upon which are erected 5 industrial buildings with a covered walkway completed in about 1995. The buildings have a total gross floor area of approximately 4,697.66 sq.m. and the covered walkway has an area of approximately 62.34 sq.m. The land use rights of land parcel no. 1 are collectively held. Land parcel no. 2 has a site area of approximately 2,356.13 sq.m. which was allocated to Linhai Automobile Repair Factory (“LARF”) (臨海市轎車修理廠) for an unspecified period. Land parcel no. 3 with a site area of approximately 534 sq.m. was granted to LARF for a term of 50 years expiring on 3 August 2050.	The property is currently occupied by Shanghai Volkswagen Taizhou Sales & Services Co., Ltd. (“Shanghai Taizhou”) (上海大眾汽車台州銷售服務有限公司) for car repairing purposes.	89,000

Notes:

1. Pursuant to a long term land use agreement entered into between Xia Pu Village (下浦村) and LARF on 12 July 1992 and a supplementary agreement entered into between Xia Pu Village (下浦村) and Shanghai Taizhou on 31 December 2003, the total rental of two parcels of land with a total site area of approximately 14.95 mui (9,966.72 sq.m.) has been paid up by Shanghai Taizhou which has obtained the long term use rights of the subject land.
2. Pursuant to a State-owned Land Use Rights Certificate, Lincheng Guo Yong (2000) Zi Di No. 057897 issued by Land Administration Bureau of Linhai on 24 November 2000, the land use rights of a parcel of land with a site area of approximately 2,890.13 sq.m. were allocated to LARF for garage uses.
3. The land use rights of a portion of the land as mentioned in note 2 with a site area of approximately 534 sq.m. were granted to LARF for a term of 50 years commencing from 4 August 2000 and expiring on 3 August 2050 for garage uses.
4. Pursuant to a Certificate for Construction on Collectively-owned land, Lin Ji Jian (1995) Zi Di No. 003214 issued by the People’s Government of Linhai on 19 November 1995, the land use for construction on collectively owned land with a site area of approximately 8,027.51 sq.m. is permitted.
5. Pursuant to a Building Ownership Certificate, Lin Zi Di No. 0045254 issued by Real Estate Administration Bureau of Linhai, the building ownership rights of 5 industrial buildings with a total gross floor area of approximately 4,697.66 sq.m. and a covered walkway with a covered area of approximately 62.34 sq.m. are held by LARF.
6. In the valuation of this property, we have not attributed any commercial value to the collectively owned and allocated land with a total site area of approximately 10,383.64 sq.m. (land parcel nos. 1 and 2), the 6 buildings with a total gross floor area of approximately 4,716.86 sq.m. and a covered walkway with a covered area of approximately 62.34 sq.m. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the 6 buildings as at the date of valuation would be RMB3,270,000 assuming all relevant title ownership certificates had been obtained.
7. Shanghai Taizhou is an 51% interest-owned subsidiary of the APG Group.
8. We have been provided with a legal opinion regarding the property interests by the AGP Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) LARF was liquidated on 24 November 2003 and all the assets under the name of LARF have been injected to Shanghai Taizhou;
 - (ii) Shanghai Taizhou has obtained the long term use rights of the subject land;
 - (iii) the building ownership rights of the five buildings as mentioned in note 5 (the “Five Buildings”) are legally owned by Shanghai Taizhou;
 - (iv) Shanghai Taizhou can freely lease, mortgage and transfer the Five Buildings in accordance with the PRC laws and legislations; and
 - (v) Shanghai Taizhou constructed an electricity distribution room on the subject land (one of the six buildings with a gross floor area of 19.2 sq.m. as mentioned in note 6 (the “Electricity Room”). The Electricity Room is under application for title ownership certificate. Shanghai Taizhou owns the land use rights of the property. The application for and commencement of the construction work complied with legal procedures and relevant application fee for applying the title ownership certificates had been paid up. It is considered that Shanghai Taizhou has the rights to occupy, use, handle and lease the Electricity Room with regards to the PRC laws and regulations and can obtain relevant title ownership certificates without legal impediment.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
4. Unit 1026 Ningbo Baoshuiqu Commercial Building Beilun District Ningbo Zhejiang Province The PRC	The property comprises a unit on level 10 of a 13-storey office building completed in about 2003. The unit has a gross floor area of approximately 76.15 sq.m. The land use rights of the property to an apportioned site area of approximately 19.31 sq.m. were granted for a term of 40 years expiring on 5 September 2042.	The property is currently vacant.	290,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Yong Bao Tu Guo Yong (2003) Zi Di No. 0080, issued by the People’s Government of Ningbo Baoshuiqu Administrative Authority on 13 May 2003, the land use rights of a parcel of land with an apportioned site area of approximately 19.31 sq.m. were granted to Ningbo Huadu Real Estate Co., Ltd. (“Ningbo Huadu”) (寧波華都房地產有限公司) for a term of 40 years expiring on 5 September 2042 for office uses.
2. Pursuant to a Building Ownership Certificate, Yong Fang Quan Zheng Bao Zi Di No. 20030076 issued by Ningbo Baoshuiqu (Export Processing District) Real Estate Administration Bureau on 25 April 2003, the building ownership rights of the unit with a gross floor area of approximately 76.15 sq.m. are owned by in Ningbo Huadu.
3. The property was purchased by Ningbo Huadu at a consideration of RMB238,373.29 in April 2003.
4. Ningbo Huadu is an 50% interest-owned subsidiary of the APG Group.
5. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the property are legally owned by Ningbo Huadu;
 - (ii) the property is not subject to mortgage or any other encumbrances; and
 - (iii) Ningbo Huadu can freely lease, mortgage and transfer the property in accordance with the PRC laws and legislations.

VALUATION CERTIFICATE

Group II – Property interests held for sale by the APG Group in the PRC

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
5. Units on Level 1 of Blocks D, F and G and Carport nos. 1, 5 and 6 Haiqin Yuan Beilun District Ningbo Zhejiang Province The PRC	The property comprises three units on level 1 and three carports of three 12-storey composite residential/office blocks completed in about 2003. The three units have a total gross floor area of approximately 505.13 sq.m. and the three carports have a total gross floor area of approximately 77.79 sq.m. The land use rights of the property to an apportioned site area of approximately 44.33 sq.m. were granted for a term of 40 years and expire on 26 July 2043.	The property is currently vacant.	1,520,000

Notes:

1. Pursuant to a State-owned Land Use Rights Certificate, Lun Guo Yong (2004) Zi Di No. 3347343, issued by People’s Government of Economic and Technical Development District Administration Authority of Ningbo in 2004, the land use rights of a parcel of land with an apportioned site area of approximately 44.33 sq.m. for units on level 1 of Blocks B, D, F and G of Haiqin Yuan were granted to Ningbo Huadu for a term of 40 years expiring on 26 July 2043 for composite residential/office uses.
2. Pursuant to a Building Ownership Certificate, Yong Fang Quan Zheng Lun (Kai) Zi Di No. 2004010789, issued by Real Estate Administration Bureau of Ningbo on 29 June 2004, the building ownership rights of 3 units with a total gross floor area of 505.13 sq.m. stated above are owned by in Ningbo Huadu.
3. In the valuation of this property, we have not attributed any commercial value to Carport nos. 1, 5 and 6 of Haiqin Yuan which have not been granted with proper title certificates. However, for reference purposes, we are of the opinion that the capital values of these carports as at date of valuation would be RMB100,000 assuming all relevant title ownership certificates had been obtained.
4. Units on level 1 of Blocks B, D, F and G of Haiqin Yuan are subject to a mortgage for an amount of RMB1,440,000 in favour of Beilun Branch of Ningbo Commence Bank Holdings Limited (寧波市商業銀行股份有限公司北侖支行).
5. Ningbo Huadu is a 50% interest-owned subsidiary of the APG Group.
6. We have been provided with a legal opinion regarding the property interests by APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the three units on level 1 of Blocks D, F and G of Haiqin Yuan (the “Three Units”) are legally owned by Ningbo Huadu;
 - (ii) Ningbo Huadu can freely lease, mortgage and transfer the Three Units in accordance with the PRC laws and legislations;
 - (iii) Carport nos 1, 5 and 6 of Haiqin Yuan (the “Three Carports”) have to be purchased together with residential units in order to be eligible to apply for the State-owned Land Use Rights Certificates and the Building Ownership Certificates; and
 - (iv) Since the Three Carports have not been sold, relevant title ownership certificates have not been obtained.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital Value
			in existing state as at 31 March 2005 RMB
6. Unit A#37-202 and 4 storerooms and 24 carports Chengshiluzhou Haihong Yuan Songhuajiang Road Beilun District Ningbo Zhejiang Province The PRC	The property comprises a residential unit on level 2 of a 7-storey residential block, four storerooms and twenty-four carports on level 1 of various residential blocks completed in about 2003. The residential unit has a gross floor area of approximately 134.99 sq.m. The four storerooms have a total gross floor area of approximately 22.77 sq.m. and twenty-four carports have a total gross floor area of approximately 559.14 sq.m. The land use rights of the property were granted for a term expiring on 11 October 2071.	The property is currently vacant.	200,000

Notes:

1. Pursuant to a State-owned land Use Rights Grant Contract, Ning Kai Tu Chu He (2001) No. 35 entered into between Economic and Technical Development Zone Branch of Land Administration Bureau of Ningbo (the “Grantor”) and Ningbo Huadu (the “Grantee”) on 2 July 2001, the land use rights of a parcel of land with a site area of approximately 14,540 sq.m. were granted to Ningbo Huadu for a term of 70 years at a consideration of RMB9,291,060 for residential uses.
2. Pursuant to a State-owned Land Use Rights Certificate, Ning Kai Guo Yong (2002) Zi Di No. 3754 issued by the People’s Government of Economic and Technical Development District Administration Authority of Ningbo on 19 October 2001, the land use rights of a parcel of land with a site area of 14,540 sq.m. were granted to the Grantee for a term of 70 years expiring on 11 October 2071 for residential uses.
3. In the valuation of this property, we have not attributed any commercial value to the 4 storerooms and 24 carports which have not been granted with proper title certificates. However, for reference purposes, we are of the opinion that the capital values of the 4 storerooms and 24 carports as at date of valuation would be RMB870,000 assuming all relevant title ownership certificates had been obtained.
4. Ningbo Huadu is a 50% interest-owned subsidiary of the APG Group.
5. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) After the residential unit A#37-202 is sold to a purchaser, the purchaser can apply for State-owned Land Use Rights Certificate and Building Ownership Certificate;
 - (ii) the 4 storerooms and 24 carports has to be purchased together with residential units in order to be eligible to apply for the State-owned Land Use Rights Certificates and the Building Ownership Certificates; and
 - (iii) Since the 4 storerooms and 24 carports have not been sold, relevant title ownership certificates have not been obtained.

VALUATION CERTIFICATE

Group III – Property interest held under development by APG Group in the PRC

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
7. Huadu Apartments Xiaoganglianhe Road South Beilun District Ningbo Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 10,061.5 sq.m. on which are erected 6 composite commercial/residential blocks with carparking area which are scheduled to be completed by the end of 3rd quarter of 2005. The buildings have a total planned gross floor area of approximately 15,660.7 sq.m. whilst the carparking area has a planned gross floor area of approximately 1,769.7 sq.m. The land use rights of the property were granted for a term expiring on 7 June 2063 for residential uses.	The property is currently under construction.	41,900,000

Notes:

1. Pursuant to a State-owned Land Use Rights Transfer Contract entered into between Ningbo United Group Holdings Co., Ltd. (寧波聯合集團股份有限公司) (the “Transferor”) and Ningbo Huadu (the “Transferee”) dated 18 June 2003, the land use rights of a parcel of land with a site area of approximately 10,317 sq.m. were transferred to the Transferee at a consideration of RMB9,563,869.
2. Pursuant to a Stated-owned Land Use Rights Certificate, Ningkai Guo Yong (2003) Zi Di No. 6610 issued by the People’s Government of Economic and Technical Development District Administration Authority of Ningbo on 24 August 2003, the land use rights of a parcel of land with a site area of approximately 10,061.5 sq.m. were granted to Ningbo Huadu for a term expiring on 7 June 2063 for residential uses.
3. Pursuant to a Construction Land and Planning Permission Certificate, No. (2003) Xi Gui (Di) Zheng 0204343 issued by Beilun Branch of Planning Bureau of Ningbo on 4 August 2003, the development is approved.
4. Pursuant to two Construction Works and Planning Permission Certificates, Nos. (2004) Xi Gui (Jian) Zheng 0204071 dated 4 March 2004 and (2004) Xi Gui (Jian) Zheng 0204198 dated 21 June 2004 issued by Beilun Branch of Planning Bureau of Ningbo, the total planned gross floor area of the property is 17,370.40 sq.m. and the details are set out below.

Particulars	Gross Floor Area (Approx.)
Residential	12,436.40 sq.m.
Retail	2,802.30 sq.m.
Amenities Building	422.00 sq.m.
Carpark	1,769.70 sq.m.

5. Pursuant to two Construction Works Commencement Permission Certificates, Nos. 330206200403180601 dated 24 March 2004 and 330206200407290101 dated 6 September 2004, issued by Beilun District Construction Bureau of Ningbo City, the construction works were permitted to commence.
6. According to a Pre-sale permit, Lun Fang Xu Zi (2004) Di No. 32, issued by the Construction Bureau of Beilun District, Ningbo in August 2004, Blocks 1 to 5 of the property were permitted for sale.
7. As advised by the APG Group, the total estimated development cost of the property is RMB52,000,000 of which RMB27,620,000 had been paid and 70 % of the development had been completed as at the date of valuation.
8. Ningbo Huadu is an 50% interest-owned subsidiary of the APG Group.
9. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:

(i) the land use rights and building ownership rights of the property are legally owned by Ningbo Huadu;

(ii) the property is not subject to mortgage or any other encumbrances; and

(iii) Ningbo Huadu can freely lease, mortgage and transfer the property in accordance with the PRC laws and legislations.

VALUATION CERTIFICATE

Group IV – Property interests held for future development by the APG Group in the PRC

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
8. A parcel of land located at the East of Kangqi Street and North of Kaiyuan Road Jindongxincheng District Jinhua Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 13,955 sq.m. The property is planned to be developed into a composite commercial and residential development with a total planned gross floor area of not more than 13,955 sq.m. Construction is scheduled to commence in August 2005. The land use rights of the property were granted for a term of 40 years expiring on 2 December 2044.	The property is currently vacant.	19,500,000

Notes:

1. Pursuant to a Stated-owned Land Use Rights Grant Contract entered into between Land Resources Bureau of Jinhua and Zhang Ming Hai and Lin Zhou (張明海，林洲) on 3 December 2004, the land use rights of a parcel of land with a site area of approximately 13,955 sq.m. were granted to Zhang Ming Hai and Lin Zhou for a term of 40 years at a consideration of RMB16,746,000 for commercial uses.
2. Pursuant to a State-owned Land Use Rights Certificate, Jin Shi Guo Yong (2005) Di No.1-71908 issued by the People’s Government of Jinhua on 27 May 2005, the land use rights of a parcel of land with a site area of approximately 13,955 sq.m. were granted to Jinhua Huadu Property Co., Ltd. (“Jinhua Huadu”) (金華市華都置業有限公司) for a term of 40 years expiring on 2 December 2044.
3. According to the information provided by APG Group, Zhang Ming Hai and Lin Zhou owns 25% and 20% shares of Jinhua Huadu respectively. Jinhua Huadu is an 27.5% interest-owned subsidiary of APG Group.
4. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) Jinhua Huadu owns the land use rights of the property; and
 - (ii) Jinhua Huadu can freely lease, mortgage and transfer the property in accordance with the PRC laws and legislations.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
9. A parcel of land located at He Dong Village Yong Jiang County Jiangbei District Ningbo Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 13,200 sq.m. The land use rights of the property were granted for a term expiring on 17 March 2047.	The property is currently vacant.	3,950,000

Notes:

1. Pursuant to a document, (2000) Yongzhi Zi Di No. 592 dated 20 November 2002, Ningbo Huadu has obtained the land use rights of a parcel of land with a site area of approximately 13,200 sq.m. at a consideration of RMB3,400,000.
2. Pursuant to a Stated-owned Land Use Rights Certificate, Yong Bei Guo Yong (2003) Zi Di No. 0312 issued by the People’s Government of Jiangbei District of Ningbo on 17 January 2003, the land use rights of a parcel of land with a site area of approximately 13,200 sq.m. were granted to Ningbo Huadu for a term expiring on 17 March 2047 for industrial uses.
3. The property is subject to a mortgage for an amount of RMB4,060,000 in favour of Beilun Branch of Ningbo Commerce Bank Holdings Limited (寧波市商業銀行股份有限公司北侖支行).
4. Ningbo Huadu is an 50% interest-owned subsidiary of the APG Group.
5. We have been provided with a legal opinion regarding the property interests by the APG Group’s PRC legal advisers, which contains, *inter alia*, the following:
 - (i) the land use rights of the property are legally owned by Ningbo Huadu; and
 - (ii) Ningbo Huadu can freely lease, mortgage and transfer the property in accordance with the PRC laws and legislations.

VALUATION CERTIFICATE

Group V – Property interest held for future development by the Group in the USA

Property	Description and tenure	Particulars of occupancy	Capital Value
			in existing state as at 31 March 2005 RMB
10.LA County Assessor’s Parcel No. 3023-026- 038 Palmdale California USA	The property comprises a parcel of land with a site area of approximately 2.40 acre (9,712.46 sq.m.) for future residential development.	The property is currently vacant.	1,730,000

Notes:

1.

Pursuant to a grant deed nos. 050874792 and 051168311 dated 15 April 2005, the registered owner of the property is Compass Palmdale, LLC.
2.

The property was purchased by the Group on 23 September 2004 at a consideration of USD210,000.
3.

Compass Palmdale, LLC is a wholly-owned subsidiary of the Group.
4.

Our valuation conclusion is reached having regard to the valuation report undertaken by Steven R. Norris, a qualified professional in Real Estate who has 25 years of valuation experience in respect of the properties in the USA and is a member of the Appraisal Institute and a counselor of Real Estate.

VALUATION CERTIFICATE

Group VI – Property interests leased and occupied by the APG Group in the PRC

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
11. Unit 2903-F Ningbo Baoshuiqu International Development Building Beilun District Ningbo Zhejiang Province The PRC	The property comprises a unit on level 29 of a 35-storey office building completed in about 2002. The unit has a gross floor area of approximately 20 sq.m. The unit is leased to Ningbo Baoshuiqu Yafei Trading Co., Ltd. (“Ningbo Yafei”) (寧波保稅區亞飛貿易有限公司) from an independent third party for a year commencing from 28 April 2004 and expiring on 27 April 2005 at an annual rent of RMB20,000 exclusive of all outgoings.	The property is currently occupied by the Ningbo Yafei for office purpose.	No commercial value

Notes:

- Pursuant to a tenancy agreement entered into between Ningbo Bohai Business Co., Ltd. (寧波博海實業有限公司) (the “Lessor”) and Ningbo Yafei (the “Lessee”) on 28 April 2004, the property is leased to the Lessee for a term of a year commencing from 24 April 2004 and expiring on 27 April 2005 at a an annual rental of RMB20,000 exclusive of all outgoings.
- Pursuant to a tenancy agreement entered into between the Lessor and the Lessee on 3 March 2005, Unit 2903-F is renewed for a further term of a year commencing from 28 April 2005 and expiring on 27 April 2006 at a an annual rental of RMB20,000 exclusive of all outgoings.
- Ningbo Yafei is a wholly-owned subsidiary of the APG Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease and use the property in accordance with the tenancy agreements; and
 - the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
12.Units 501, 504 and 505 Level 5 Shanghai Hotel Office Block No. 505 Wulumuqi North Road Jingan District Shanghai The PRC	The property comprises three conjoining units on level 5 of an 8-storey office building completed in about 1983. The units have a total gross floor area of approximately 680 sq.m. The units are leased to Ningbo Phoenix and Shanghai Shengfei Automobile Sales & Services., Ltd. (“Shanghai Shengfei”) (上海聖飛汽 車銷售服務有限公司) from two independent third parties for a common term of 2 years commencing from 1 January 2005 and expiring on 31 December 2006 at a total annual rental of RMB476,000 exclusive of all outgoings.	The property is currently occupied by the Ningbo Phoenix and Shanghai Shengfei for office purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Shanghai City Shanghai Hotel Co., Ltd. (上海市上海賓館有限公司) (the “Lessor”) and Ningbo Phoenix (the “Lessee 1”) signed on 29 November 2004 and 30 November 2004 respectively, unit 501 is leased to Lessee 1 for a term of 2 years commencing from 1 January 2005 at an annual rent of RMB336,000 exclusive of all outgoings.
2. Pursuant to a tenancy agreement entered into between the Lessor and Shanghai Xingtong Travel Co. Ltd. (上海行通旅遊有限公司) (the “Lessee 2”) signed on 29 November 2004, a portion of level 5 of Shanghai Hotel Office Block with a gross floor area of 190 sq.m. is leased to Lessee 2 for a term of 2 years commencing from 1 January 2005 and expiring on 31 December 2006 at an annual rental of RMB168,000 exclusive of all outgoings.
3. Pursuant to a supplementary tenancy agreement entered into between the Lessee 2 and Shanghai Shengfei (the “Sub-lessee”), units 504 and 505 together with a conference room with a total gross floor area of 100 sq.m. are leased to Sub-lessee for a term of 2 years commencing from 1 January 2005 and expiring on 31 December 2006 at an annual rental of RMB140,000 exclusive of all outgoings.
4. Ningbo Phoenix is a wholly-owned subsidiary of the APG Group.
5. Shanghai Shengfei is a 90% interest-owned subsidiary of the APG Group.
6. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee 1 has the rights to lease and use unit 501 in accordance with the tenancy agreement mentioned in note 1. The Lessee 2 has the rights to lease or sublease while the Sub-lessee has the rights to lease and use units 504 and 505 and the conference room in accordance with the tenancy agreement and supplementary tenancy agreement mentioned in note 2 and 3 respectively; and
 - (ii) the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
13. Unit 1801 Vanke Commercial Plaza No. 37 Shuicheng South Road Shanghai The PRC	The property comprises a unit on level 18 of an 18-storey office building completed in about 2002. The unit has a gross floor area of approximately 100.11 sq.m. The property is leased to Shanghai Branch of Ningbo Meilide Consultancy Co. Ltd. (“Shanghai Ningbo Meilide”) (寧波美立德諮詢有限公司上海分公司) from an independent third parties for a year commencing from 1 August 2004 and expiring on 31 July 2005 at a monthly rent of RMB8,000 exclusive of all outgoings.	The property is currently occupied by Shanghai Ningbo Meilide as an office.	No commercial value

Notes:

- Pursuant to a tenancy agreement entered into between Zhuang Di Ping (莊滌萍) (the “Lessor”) and Shanghai Ningbo Meilide (the “Lessee”) on 20 July 2004, the unit is leased to the lessee for a term of a year commencing from 1 August 2004 and expiring on 31 July 2005 at an annual rent of RMB8,000 exclusive of all outgoings.
- Shanghai Ningbo Meilide is a wholly-owned subsidiary of the APG Group.
- We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease and use the property in accordance with the tenancy agreement; and
 - the terms and conditions of the tenancy agreement do not contravene the PRC laws and legislations and thus the tenancy agreement is legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

		Capital Value in existing state as at 31 March 2005 RMB	
Property	Description and tenure	Particulars of occupancy	
14.Podium level Shanghai Jiangsu Hotel No. 888 Wuning Road Shanghai The PRC	The property comprises a podium level of a 23-storey hotel building completed in the 1990s. The unit has a gross floor area of approximately 595.62 sq.m. The property is leased to Yitong Sales from an independent third party for a term of 2 years commencing from 1 December 2004 and expiring on 31 November 2006 at an annual rent of RMB500,000 exclusive of all outgoings.	The property is currently occupied by Shanghai Yitong as a showroom.	No commercial value

Notes:

- Pursuant to a tenancy agreement entered into between Shanghai Jiangsu Hotel (上海江蘇飯店) (the “Lessor”) and Shanghai Yitong (the “Lessee”) signed on 2 November 2004 and 29 October 2004 respectively, the unit is leased to the Lessee for a term of 2 years commencing from 1 December 2004 and expiring on 31 November 2006 at an annual rent of RMB500,000 exclusive of all outgoings.
- Shanghai Yitong is a 51% interest-owned subsidiary of the APG Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease and use the property in accordance with the tenancy agreement; and
 - the terms and conditions of the tenancy agreement do not contravene the PRC laws and legislations and thus the tenancy agreement is legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
15.Units 107, 108 and 109 Block 47 No. 505 Wuning Road Shanghai The PRC	The property comprises 3 units on level 1 of a 7-storey office building completed in about 1996. The property has a total gross floor area of approximately 128 sq.m. The property is leased to Yitong Sales from an independent third party for a term commencing from 28 October 2004 and expiring on 31 December 2005 at a monthly rent of RMB16,200 exclusive of all outgoings.	The property is currently occupied by Shanghai Yitong as a showroom.	No commercial value

Notes:

- Pursuant to a tenancy agreement entered into between Shanghai Electrical Appliances Technology Research Institute (上海電器科技研究所) (the “Lessor”) and Shanghai Sanyin Technology Integrated Development Business Co., Ltd. (上海三銀科技綜合開發實業有限公司) (the “Lessee”), a portion of two blocks of buildings and a building located at Cao Yang Road with a total gross floor area of 2,073 sq.m. are leased to the Lessee for a term commencing from 1 January 2001 and expiring on 31 December 2005 at an annual rental of RMB100,000 for the first two years which will be increased by 10% in the third year.
- Pursuant to a tenancy agreement entered into between the Lessee and Shanghai Yitong (the “Sub-lessee”) on 14 October 2004, the property is leased to Sub-lessee for a term commencing from 28 October 2004 and expiring on 31 December 2005 at a monthly rent of RMB16,200 exclusive of all outgoings.
- Shanghai Yitong is a 51% interest-owned subsidiary of the APG Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease, use and sub-lease the property while the sub-lessee has the rights to lease and use the property in accordance with the tenancy agreements; and
 - the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
16. Unit B309 No. 459 Futexiyi Road Shanghai Waigaoqiao Baoshui District Shanghai The PRC	The property comprises a unit on level 3 of a 6-storey office building completed in the 1990s. The unit has a gross floor area of approximately 23.27 sq.m. The property is leased to Shanghai Huanya Zhongjin International Trade Co., Ltd. (“Shanghai Huanya”) (上海環亞中進國際貿易有限公司) from an independent third party for a term commencing from 1 December 2003 and expiring on 30 November 2008 at an annual rent of RMB25,000 exclusive of all outgoings.	The property is currently occupied by the Shanghai Huanya for office purpose.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Shanghai Waigaoqiao Baoshuiqu Development Holdings Co., Ltd. (上海外高橋保稅區開發股份有限公司) (the “Lessor”) and Shanghai Waigaoqiao Automobile Trading Market Co., Ltd. (上海外高橋汽車貿易市場有限公司) (the “Lessee”) dated 12 November 2001, the whole building located at No. 459 Futexiyi Road with a gross floor area of 8,508.76 sq.m. is leased to the Lessee for a term of four years commencing from 28 February 2002 and expiring on 27 February 2006 at a monthly rental of USD31,057 exclusive of all outgoings. The monthly rental will be increased by 15% effective from the fourth year of the lease term.
2. Pursuant to a tenancy agreement entered into between the Lessee and Shanghai Huanya (the “Sub-lessee”) on 9 February 2004, the unit is leased for a term commencing from 1 December 2003 and expiring on 30 November 2005 at an annual rent of RMB25,000 exclusive of all outgoings.
3. Shanghai Huanya is a wholly-owned subsidiary of the APG Group.
4. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease, use and sublease while the Sub-lessee has the rights to lease and use the property in accordance with the tenancy agreements; and
 - (ii) the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
17.A parcel of land, Level 1 and Level 2 of Block 2 No. 597 Tianshan Road Changning District Shanghai The PRC	The property comprises a parcel of land with a site area of approximately 4,600 sq.m., and the whole of levels 1 and 2 of a 6-storey industrial building erected on the subject land, which was completed in about 2002. The two levels of the industrial building have a total gross floor area of approximately 1,000 sq.m. The property is leased to Shanghai Jiaoyun Shengfei Automobile Sales & Services Co., Ltd. (“Shanghai Jiaoyun”) (上海交運聖飛汽車銷售服務有限公司) from an independent third party for 15 years commencing from 12 May 2003 and expiring on 11 May 2018 at an annual rent of RMB600,000 exclusive of all outgoings for the first two years and the rental for the remaining term to be agreed.	The property is currently occupied by the Shanghai Jiaoyun as car showrooms and ancillary offices.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Shanghai Automobile Repair Company (上海市汽車修理公司) (the “Lessor”) and Shanghai Jiaoyun (the “Lessee”) dated 12 May 2003, the property is leased to the Lessee for a term of 15 years commencing from 12 May 2003 and expiring on 11 May 2018 at an annual rent of RMB600,000 exclusive of all outgoings for the first two years and the rental for the remaining term to be agreed.
2. As per our recent on-site inspection, the Lessee has constructed a car showroom with a gross floor area of approximately 3,610 sq.m. As confirmed by the Lessee, the Lessor is in the process of applying the Building Ownership Certificate for this showroom.
3. In the course of valuation, we have not attributed any commercial value to the showroom with a gross floor area of approximately 3,610 sq.m. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the showroom as at the date of valuation would be RMB7,450,000 assuming all relevant title ownership certificates have been obtained without further payment of any premium, administration fee or tax etc.
4. Shanghai Jiaoyun is a 51% interest-owned subsidiary of the APG Group.
5. We have been provided with a legal opinion on the legality of the tenancy agreement to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee has the rights to lease and use the property in accordance with the tenancy agreement;
 - (ii) the terms and conditions of the tenancy agreement do not contravene the PRC laws and legislations and thus the tenancy agreement is legal, valid and binding on relevant parties upon signing; and
 - (iii) Shanghai Jiaoyun enjoys the land use rights of the property so that it can construct buildings in accordance with the requirements of relevant government authority. The showroom mentioned in note 2 is under application for title ownership certificate. According to a document issued by the local government authority, the application for and commencement of the construction work complied with legal procedures. Relevant application fee for applying the title ownership certificates has been paid up. It is considered that Shanghai Jiaoyun has the rights to occupy, use, handle and lease the property with regards to the PRC laws and regulations and the Lessor can obtain relevant title ownership certificates without legal impediment.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
18.A parcel of land located at the intersection of Zhongxin South Road and Huancheng South Road Jiangdong District Ningbo Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 10,125 sq.m. The land is leased to Ningbo Shengfei Automobile Sales & Services., Ltd. (“Ningbo Shengfei”) (寧波聖菲汽車銷售服務有限公司) from an independent third party for a term of 20 years commencing from 30 June 2004 and expiring on 29 June 2024 at an annual rent of RMB600,000 exclusive of all outgoings.	The property is currently under construction and will be occupied by Ningbo Shengfei as a showroom.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Ningbo Jiangdong Fuyuan Electrical Appliances Manufacturing Co., Ltd. (寧波市江東福源電器制造有限公司) (the “Lessor”) and Ningbo Kunyuan Automobile Sales & Service Co., Ltd. (寧波市坤源汽車銷售服務有限公司) (the “Lessee”) dated 28 February 2004, a parcel of land with a site area of approximately 30,700 sq.m. is leased to the Lessee for a term of 20 years commencing from 1 March 2004 and expiring on 29 February 2024, with an option to renew the term, at an annual rental of RMB138,150 exclusive of all outgoings.
2. Pursuant to a tenancy agreement entered into between the Lessee and Ningbo Shengfei (the “Sub-lessee”) on 1 July 2004, a parcel of land with a site area of approximately 10,125 sq.m. is leased to the Sub-lessee for a term of 20 years commencing from 25 June 2004 at an annual rent of RMB600,000 exclusive of all outgoings.
3. As per our recent on-site inspection, a showroom is currently under construction on site by the Sub-lessee with an estimated gross floor area of approximately 4,000 sq.m. and is scheduled to be completed in the 2nd quarter of 2005.
4. As advised by the APG Group, the total estimated construction cost of the showroom is about RMB3,550,000 of which RMB2,850,000 has been paid as at the date of valuation.
5. Ningbo Shengfei is a 51% interest-owned subsidiary of the APG Group.
6. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) The land use rights of the property is legally owned by the Lessor. The Lessee has the rights to lease, use and sublease while the Sub-lessee has the rights to lease and use the property in accordance with the tenancy agreements;
 - (ii) the terms and conditions of the tenancy agreement do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing; and
 - (iii) Ningbo Shengfei enjoys the land use rights of the property. The showroom mentioned in note 3 is under application for title ownership certificate. The application for and commencement of the construction work complied with legal procedures. Relevant application fee for applying the title ownership certificates has been paid up. It is considered that Ningbo Shengfei has the rights to occupy, use, handle and lease the property with regards to the PRC laws and regulations and the Lessor can obtain relevant title ownership certificates without legal impediment.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
19.C-7 and an ancillary office and C-9 and an ancillary office Section C of Ningbo Century Carcity Showroom Jiangdong District Ningbo Zhejiang Province The PRC	The property comprises two conjoining portions of display area and two ancillary offices of a single storey showroom completed in about 2004. The two portions of showroom and ancillary office have a total gross floor area of approximately 600 sq.m. The property is leased to Shanghai Volkswagen Ningbo Sales & Services Co., Ltd. (“Shanghai Ningbo”) (上海大眾汽車寧波銷售服務有限公司) and Ningbo Shengfei from an independent third party for a common term of 2 years commencing from 25 June 2004 and expiring on 24 June 2006 at a total annual rent of RMB373,280 exclusive of all outgoings.	The property is currently occupied by the Shanghai Ningbo and Ningbo Shengfei as car showrooms and ancillary offices.	No commercial value

Notes:

1. Pursuant to a tenancy agreement entered into between Ningbo Century Car City Service Co., Ltd. (寧波市世紀轎車城服務有限公司) (the “Lessor”) and Shanghai Ningbo (the “Lessee 1”) on 26 June 2004, C-7 and ancillary office are leased to Lessee 1 for a term of 2 years commencing from 25 June 2004 and expiring on 24 June 2006 at an annual rent of RMB186,640 exclusive of all outgoings.
2. Pursuant to a tenancy agreement entered into between the Lessor and Ningbo Shengfei (the “Lessee 2”) on 8 July 2004, C-9 and ancillary office are leased to Lessee 2 for a term of 2 years commencing from 25 June 2004 and expiring on 24 June 2006 at a an annual rent of RMB186,640 exclusive of all outgoings.
3. Shanghai Ningbo is a 51% interest-owned subsidiary of the APG Group.
4. Ningbo Shengfei is a 51% interest-owned subsidiary of the APG Group.
5. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) the land use rights and building ownership rights of the property are legally owned by the Lessor. The Lessee 1 and Lessee 2 have the rights to lease and use the property in accordance with the tenancy agreements; and
 - (ii) the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
20. A parcel of land and various buildings located at No. 178 Xingning Road Jiangdong District Ningbo Zhejiang Province The PRC	The property comprises a parcel of land with a site area of approximately 7,144.67 sq.m. on which are erected 9 industrial buildings completed in various stages between 1999 and 2004. The buildings have a total gross floor area of approximately 5,897.55 sq.m. The property is leased to Shanghai Ningbo for a term commencing from 31 December 2001 and expiring on 30 December 2018 at an annual rental of RMB399,800 exclusive of all outgoings.	The property is currently occupied by Shanghai Ningbo as showroom and car-repairing purposes. Part of the car-repairing workshop is sublet to Ningbo Shengfei for a term of 3 years commencing from 1 October 2003 and expiring on 30 September 2006 at an annual rent of RMB100,000 exclusive of all outgoings.	No Commercial Value

Notes:

1. Pursuant to a tenancy agreement entered into between Ningbo Jiangdong District Dongjiaoxiang Chouhua Village Economic Cooperation Administration Authority (寧波市江東區東郊鄉仇華村經濟合作社管理委員會) (the “Lessor”) and Shanghai Ningbo (the “Lessee”) on 9 July 2003, a parcel of land with a site area of approximately 7,144.67 sq.m. and various buildings with a total gross floor area of approximately 4,864.13 sq.m. are leased to the lessee for a term commencing from 31 December 2001 and expiring on 30 December 2018 at an annual rental of RMB399,800 exclusive of all outgoings. The rental will be reviewed every three years at a percentage change between 8% and 10% of the rental. The Lessee has obtained the consent of the Lessor to demolish a building with a gross floor area of 745 sq.m. and reconstruct it into a showroom with a gross floor area of 1,362 sq.m. without changes in the rental. Pursuant to a supplementary agreement of tenancy agreement dated 3 June 2005, the annual rental has been reviewed to RMB439,780 effective for the period between 31 December 2004 and 30 December 2007.
2. Pursuant to a tenancy agreement entered into between the Lessee and Ningbo Shengfei (the “Sub-lessee”) on 1 October 2003, portion of the car-repairing workshop with a gross floor area of approximately 500 sq.m. is leased to the Sub-lessee for a term of 3 years commencing from 1 October 2003 and expiring on 30 September 2006 at an annual rent of RMB100,000 exclusive of all outgoings.
3. As per our inspection, there are 9 buildings with a total gross floor area of approximately 5,897.55 sq.m. of which 5,481.13 sq.m. are mentioned in the tenancy agreement in note 1. The additional floor area of 416.42 sq.m. is constructed by Shanghai Ningbo.
4. In the course of valuation, we have not attributed any commercial value to 9 buildings with a total gross floor area of 5,897.55 sq.m. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the buildings as at the date of valuation would be RMB5,660,000 assuming all relevant title ownership certificates have been obtained without further payment of any premium, administration fee or tax etc.
5. Shanghai Ningbo is a 51% interest-owned subsidiary of the APG Group.
6. Ningbo Shengfei is a 51% interest-owned subsidiary of the APG Group.
7. We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - (i) the building ownership rights of the property are legally owned by the Lessor. The Lessee and Sub-Lessee have the rights to lease and use the property in accordance with the tenancy agreements.
 - (ii) the terms and conditions of the tenancy agreements do not contravene the PRC laws and legislations and thus the tenancy agreements are legal, valid and binding on relevant parties upon signing;
 - (iii) the buildings with a gross floor area of 4,170.58 sq.m. are included in title ownership certificates and that of 693.55 sq.m. are under application for relevant title ownership certificates. According to a document issued by the local government authority, the application for and commencement of the construction work complied with legal procedures;
 - (iv) the Lessee enjoys the extension of gross floor area of 617 sq.m. of the newly constructed showroom without increase in the rental;
 - (v) the Lessee can claim for compensation for the extension of gross floor area of 617 sq.m. of the newly constructed showroom if it was demolished due to Urban Planning;
 - (vi) The application for and commencement of the construction work of the extension of gross floor area of 617 sq.m. complied with legal procedure and is under application for relevant title ownership certificate. The Lessee enjoys the rights to occupy, use handle and lease the property with regards to the PRC laws and regulations; and
 - (vii) Shanghai Ningbo has constructed an additional building with a gross floor are of 416.42 sq.m. which are under application for relevant title ownership certificate. Shanghai Ningbo enjoys the land use rights of the property. The application for and commencement of the construction work complied with legal procedures and relevant application fee for applying the title ownership certificates has been paid up. It is considered that Shanghai Ningbo has the rights to occupy, use, handle and lease the property with regards to the PRC laws and regulations and the Lessor can obtain relevant title ownership certificates without legal impediment.

VALUATION CERTIFICATE

			Capital Value in existing state as at 31 March 2005 RMB
Property	Description and tenure	Particulars of occupancy	
21. A parcel of land located at Hai Nan Village Dong Jiao Town Fang Cun District Guangzhou The PRC	The property comprises a parcel of land with a site area of approximately 56,976.93 sq.m. on which are erected 6 showrooms with a total gross floor area of approximately 21,135.90 sq.m. completed in various stages between 2003 and 2004. The land is leased to Guangzhou Shenfei Automobile Sales & Services Co., Ltd. (“Guangzhou Shenfei”) (廣州申飛汽車銷售服務有限公司) from an independent third party for a term commencing from 15 February 2003 and expiring on 14 December 2023 at a monthly rental of RMB3.8 per sq.m. for the first three years and the rent will be increased by 13.99% for every three years thereafter, exclusive of all outgoings.	Of the 6 showrooms, 5 of them are currently occupied by Guangzhou Shenfei.	No commercial value

Notes:

- Pursuant to a tenancy agreement entered into between Guangzhou Fangcun District Dongjiao Town Hainan Villagers Authority (廣州市芳村區東漖鎮海南村民委員會) (the “Lessor”) and Guangzhou Shenfei (the “Lessee”) on 19 January 2003 and a supplementary tenancy agreement on 15 February 2003, a parcel of land with a site area of approximately 56,976.93 sq.m. is leased to the Lessee for a term commencing from 15 February 2003 and expiring on 14 December 2023. The detail of the rental schedule is tabulated below:

Year	Monthly rental per sq.m. (RMB)	Monthly rental (RMB)
1st to 3rd year	3.80	216,512.33
4th to 6th year	4.33	246,710.11
7th to 9th year	4.94	281,466.03
10th to 12th year	5.63	320,780.12
13th to 15th year	6.42	365,791.89
16th to 18th year	7.31	416,501.36
19th to 21st year	8.34	475,187.60

All are exclusive of all outgoings for the whole lease period

- Pursuant to a Construction Land and Planning Permission Certificate, Sui Cheng Gui Nan Pian Di Zi 1995 Di No. 12 dated 19 May 1995 issued by Urban Planning Bureau of Guangzhou, a parcel of land with a site area of 141,513 sq.m. located at Hai Nan Village, Dong Jiao Town, Fang Cun District, Guangzhou, the PRC was approved for industrial and/or commercial uses. A portion of the 141,531 sq.m. of land is leased by the Lessee as mentioned in note 1.
- Pursuant to 6 Construction Works and Planning Permission Certificates, Sui Fang Gui Jian (2003) nos. 17 and 21 dated 30 May 2003, 69 and 127 dated 31 January 2005, 128 and 129 dated 28 February 2005 issued by Branch of Fang Cun District of Urban Planning Bureau of Guangzhou, the construction of 7 showrooms and an electricity distribution room with a total gross floor area of 25,550.9 sq.m. was approved.
- In the course of valuation, we have not attributed any commercial value to the 6 showrooms with a gross floor area of 21,135.90 sq.m. However, for reference purposes, we are of the opinion that the depreciated replacement cost of the 6 showrooms as at the date of valuation would be RMB42,100,000 assuming all relevant title ownership certificates have been obtained without further payment of any premium, administration fee or tax etc.
- As advised by the client, the construction work of a showroom and an electricity distribution room has been stopped since May 2004.
- Guangzhou Shenfei is a 63.32% interest-owned subsidiary of the APG Group.
- We have been provided with a legal opinion on the legality of the tenancy agreements to the property issued by the APG Group’s PRC legal adviser, which contains, *inter alia*, the following:
 - the land ownership rights and land use rights of the subject land are legally owned by the Lessor. The Lessee has the rights to lease and use the land in accordance with the tenancy agreement and supplementary tenancy agreement (hereinafter together referred to as the “Agreements”);
 - the terms and conditions of the Agreements do not contravene the PRC laws and legislations and thus the Agreements are legal, valid and binding on relevant parties upon signing; and
 - Guangzhou Shenfei enjoys the land use rights of the property within the lease term specified in note 1 and can construct buildings on the subject land. The six showrooms mentioned in note 3 are under application for title ownership certificate. The application for and commencement of the construction work complied with legal procedures. Relevant application fee for applying the title ownership certificates has been paid up. (Guangzhou Fangcun District Dongjiao Town Hainan Villagers Authority has issued a document to act as a proof, which is a legal document.) It is considered that Guangzhou Shenfei has the rights to occupy, use, handle and lease the property with regards to the PRC laws and regulations and the Lessor can obtain relevant title ownership certificates without legal impediment.

VALUATION CERTIFICATE

Group VII – Property interest leased and occupied by the Group in Hong Kong

		Capital Value in existing state as at 31 March 2005 RMB	
Property	Description and tenure	Particulars of occupancy	
22.Suites 612-617 6th Floor Hutchison House No. 10 Harcourt Road Central Hong Kong	The property comprises 6 units on the 6th floor of a 23-storey office building completed in about 1974. The units have a total saleable floor area of approximately 307.84 sq.m. The property is leased to Parkwell (Hong Kong) Limited from Hongville Limited, an independent third party, for a term of 2 years commencing from 19 July 2003 and expiring on 18 July 2005, at a monthly rental of HK\$83,550 exclusive of rates and all other outgoings.	The property is currently occupied by the Group for office purposes.	No Commercial Value

Notes:

- 1. Pursuant to a Tenancy Agreement entered into between Hongville Limited (the “Lessor”) and Parkwell (Hong Kong) Limited (the “Lessee”) dated 22 May 2003, the property is leased to the Lessee for a term of 2 years commencing from 19 July 2003 and expiring on 18 July 2005 at a monthly rental of HK\$83,550 exclusive of rates and all other outgoings.
- 2. The registered owner of the property is Hongville Limited vide Memorial No. UB5919046 dated 10 August 1994.
- 3. The Tenancy Agreement of the property has been duly stamped with the Stamp Duty Office.
- 4. Parkwell (Hong Kong) Limited is a wholly-owned subsidiary of the Group.

VALUATION CERTIFICATE

Group VIII – Property interest leased and occupied by the Group in the USA

		Capital Value in existing state as at 31 March 2005 RMB	
Property	Description and tenure	Particulars of occupancy	
23.55 S Lake Avenue Suite 630 Pasadena California USA	The property comprises a unit on the 6th floor of a 9-storey office building completed in about 1991. The unit has a lettable floor area of 4,580 sq.ft. The unit is leased to Medibiotech Co. Inc (“Medibiotech”) which then subleased the property to American Compass Inc. (“American Compass”) for a term of 62 months commencing from 8 June 2003 at a monthly rental of USD11,450 exclusive of all outgoings.	The property is currently occupied by American Compass for office purpose.	No commercial value

Notes:

- Pursuant to an Office Sublease Agreement dated 8 June 2003, Medibiotech lease the property first and then sublease the property to American Compass for a term of 62 months commencing from 8 June 2003 at a monthly rental of USD11,450 exclusive of all outgoings.
- American Compass is a wholly-owned subsidiary of the Group.
- Pursuant to three grant deeds nos. 992333671, 992333672 and 992333673 all dated 14 December 1999, the registered owner of the property is Pasadena Towers, L.L.C.
- Our valuation conclusion is reached having regard to the valuation report undertaken by Steven R. Norris, a qualified professional in Real Estate who has 25 years of valuation experience in respect of the properties in the USA and 25 a member of the Appraisal Institute and a counselor of Real Estate.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest practicable Date were as follows:

<i>Authorised:</i>		<i>HK\$</i>
<u>3,000,000,000</u>	Shares of HK\$0.10 each	<u>300,000,000</u>
<i>Issued as fully paid or credited as fully paid and to be issued:</i>		<i>HK\$</i>
1,895,451,000	Shares as at the Latest Practicable Date	189,545,100
<u>548,792,263</u>	Consideration Shares to be issued	<u>54,879,226</u>
<u>2,444,243,263</u>	Shares immediately following Completion	<u>244,424,326</u>

No part of the share capital of the Company is listed or dealt in on any stock exchange other than the Stock Exchange and no application is being made or is currently proposed or sought for the Shares to be listed or dealt in on any other stock exchange.

Save as disclosed in this circular, as at the Latest Practicable Date, there is no outstanding debt, option or warrant of the Company.

3. DISCLOSURE OF INTERESTS

(a) Director’s Interests or Short Positions in the Shares

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) pursuant to section 352 of the SFO to be entered into the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange were as follows :-

Name of Director	Note	Nature of interest	Number of Shares interested
Mr. Yung Yeung	1	corporate interest	945,456,600
Mr. Yung Yeung	3	personal interest	31,570,000
Mr. Jun Li	3	personal interest	18,940,000
Mr. Chunhua Huang	3	personal interest	18,940,000
Mr. Chunhua Huang	2	corporate interest	945,456,600
Mr. Yuwen Sun	2	corporate interest	945,456,600
Mr. Yuwen Sun	3	personal interest	18,940,000
Mrs. Chizuko Kubo	3	personal interest	5,000,000

Notes:

- All these interests represent long positions. These 945,456,600 Shares are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr. Yung Yeung and as to 65% by Mr. Chunhua Huang and Mr. Yuwen Sun as trustees 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 are beneficially owned by Sun East LLC, a company which is held as to 35% by Mr. Yung Yeung and as to 65% by Mr. Chunhua Huang and Mr. Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr. Yung Yeung. Mr. Chunhau Huang and Mr. Yuwen Sun are deemed to be interested in the 945,456,600 Shares by virtue of their interest in Sun East LLC.
- Such number of Shares represents the underlying shares of the options granted under (i) the share option scheme of the Company adopted on 15 March, 1995 (which was terminated pursuant to a resolution of the Shareholders passed on 12 June 2003 and replaced by the new share option scheme adopted on 12 June 2003) and (ii) the new share option scheme adopted on 12 June 2003.

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

Save as disclosed above, as at the Latest Practicable Date, none of the directors or chief executives had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed, to have such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

(b) Competing Interests

As at the Latest Practicable Date, none of the Directors nor their respective associates have any interest in any business, which may compete with the business of the Group.

(c) Directors' Interests in Assets of the Group

As at the Latest Practicable Date, none of the Directors has any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

(d) Director's Interests in Contracts of the Group

As at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement, which was significant in relation to the business of the Group.

4. SUBSTANTIAL SHAREHOLDERS

So far as it is known to any Directors, chief executives of the Company, as at the Latest Practicable Date, Shareholders (other than Directors or chief executive of the Company) who have interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

Name	Note	Number of Shares	Percentage
Sun East LLC	1	945,456,600	49.88%
Pure Shine Limited (“PSL”)		162,951,000	8.60%
Brilliance China Automotive Holdings Limited (“BCA”)	2	162,951,000	8.60%

Note:

1.

Sun East LLC is a company owned as to 35% by Mr Yung Yeung and 65% by Mr Chunhua Huang and Mr Yuwen Sun as trustees for certain trusts established for the benefit of the children of Mr Yung Yeung.
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, as at the Latest Practicable Date, the Directors or chief executive of the Company are not aware of any other person (other than Directors or chief executive of the Company) who has an interest or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or which were required, pursuant to section 336 of Part XV of the SFO, to be entered in the register referred to therein, or who is interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any other member of the Group.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has a service contract with the Company or any of its subsidiaries or associated companies which is not expiring or which may be terminated within one year without payment of compensation other than statutory compensation.

6. LITIGATION

On 1st December, 2003, the PRC joint venture partner of Shanghai Whimsy Amusement Co., Limited (“Shanghai JV”), a subsidiary of the Company, commenced proceedings in Shanghai against Shanghai JV alleging claims for guaranteed profits of approximately HK\$454,000. Kristal Profits Limited (“KPL”), the holding company of the Shanghai JV, which is also a subsidiary of the Company has been joined as defendant in the same proceedings. The court held a hearing on 31 March 2005 but KPL has not yet received the judgment thereof. For prudence sake, a provision has been made in the financial statement of the Group in respect of such guaranteed profits.

On 4 November 2004, the PRC joint venture partner of Wuxi Whimsy Amusement Co., Limited (“Wuxi JV”), a subsidiary of the Company, commenced proceedings against Wuxi JV alleging claims of legal fee of approximately HK\$94,000, together with the cancellation of the Wuxi JV joint venture agreement and the liquidation of Wuxi JV. The Directors, after taking legal advice, are contesting this claim and the outcome of this claim cannot be determined with reasonable certainty at this stage.

Save as disclosed above, as at the Latest Practicable Date, there is no litigation or claims of material importance pending or threatened against any member of the Group.

7. EXPERTS

The following is the qualification of the professional advisers who have given their opinion or advice or report which is contained in this circular:

Name	Qualification
Sallmanns (Far East) Ltd.	Property Valuers
CCIF CPA Limited	Certified Public Accountants
Beijing Forever Law Firm	PRC legal advisers

As at the Latest Practicable Date, each of the above experts has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter(s) of advice or report and/or valuation certificate and/or opinion and/or references to its names in the form and context in which they appear.

As at the Latest Practicable Date, each of the above experts does not have any shareholding in any member of the Group or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any members of the Group.

As at the Latest Practicable Date, each of the above experts does not have any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2004, the date of which the latest published audited consolidated financial statements of the Group were made up.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up. The Directors are also of the view that the working capital available to the Group is sufficient.

9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by member of the Group within the two years immediately preceding the date of this circular and are, or may be, material:

- (a) the 1st Acquisition Agreement;
- (b) the 2nd Acquisition Agreements;
- (c) the underwriting agreement dated 30 June 2003 between the Company and Sinomax Securities Limited pursuant to which Sinomax Securities Limited had fully underwritten all of the offer shares issued under the open offer of the Company held on 23 July 2003; and
- (d) the loan agreement dated 20 September 2004 between American Compass Inc., a wholly-owned subsidiary of the Company, as lender and APG as borrower of a term loan facility of US\$5.6 million. The loan bears interest at the rate of five per cent. per annum and is secured by a share mortgage of 25% equity interest of a subsidiary of APG. The loan was originally scheduled to be fully repayable on 24 December 2004 but is now agreed to be set off against the consideration of the 1st Acquisition Agreement upon the completion thereof.

Save for the aforesaid material contracts, no material contract has been entered into by the Group (not being contracts entered into in the ordinary course of business) within two years immediately from the Latest Practicable Date which are or may be material.

10. GENERAL

- (a) The company secretary and qualified accountant of the Company is Mr. Wing Tak Law Jack who is also an executive director and chief financial officer of the Company. Mr. Wing Tak Law Jack is a member of the Institute of Chartered Accountants in England & Wales and Hong Kong Institute Certified Accountants.
- (b) The registered office of the Company is located at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda. The principal office is located at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (c) The principal share registrar and transfer office of the Company is The Bank of Bermuda Limited at 6 Front Street, Hamilton HM11, Bermuda.
- (d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business in Hong Kong of the Company at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, from the date of this circular up to and including 16 July 2005 and at the SGM:

- (a) the memorandum and articles of association of the Company;
- (b) the material contracts referred to in paragraph 9 of this Appendix;
- (c) the annual reports of the Company for the year ended 31 December 2003 and 31 December 2004;
- (d) the accountants' report on the APG Group prepared by CCIF CPA Limited, the text of which is set out in Appendix II to this circular;
- (e) the accountants' report on the Ningbo Phoenix Group prepared by CCIF CPA Limited, the text of which is set out in Appendix III to this circular;
- (f) the report on the unaudited pro forma financial information of the Enlarged Group prepared by CCIF CPA Limited, the text of which is set out in Appendix IV to this circular;
- (g) the valuation report prepared by Sallmanns (Far East) Ltd., the text of which is set out in Appendix V to this circular;
- (h) the legal opinion prepared by Beijing Forever Law firm which is referred to in this circular; and
- (i) the letters of consent referred to in the section headed "Experts" in this Appendix.

NOTICE OF SPECIAL GENERAL MEETING



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

(Incorporated in Bermuda with limited liability)
(Stock Code: 1188)

NOTICE OF SPECIAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that a special general meeting of Compass Pacific Holdings Limited (the “Company”) will be held at Suites 612-617, 6th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong on Monday, 18 July 2005 at 9:30 a.m. or any adjournment thereof for the purpose of considering and, if thought fit, passing (with or without amendments) the following as ordinary resolutions of the Company:

ORDINARY RESOLUTIONS

RESOLUTION 1

“THAT

- a. the subscription agreement dated 11 March 2005 between American Compass, Inc. as subscriber and American Phoenix Group, Inc. as supplemented by an extension letter dated 12 May 2005 (“1st Acquisition Agreement”) relating to, inter alia, the subscription of shares in the share capital of American Phoenix Group, Inc. and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- b. any one director of the Company be and is hereby authorized to sign, seal, execute, perfect and deliver any documents and to do all such acts, matters and things as he may in his discretion consider necessary or expedient or desirable in connection with and for the purposes of implementing, completing and giving effect to the 1st Acquisition Agreement and the transactions contemplated thereunder.”

RESOLUTION 2

“THAT

- a. the 39 sets of sale and purchase agreement all dated 11 March 2005 between 37 individuals and two limited liability companies as vendors and American Compass, Inc. as purchaser as supplemented by their respective extension letters all dated 12 May 2005 (“2nd Acquisition Agreements”) relating to, inter alia, the sale and purchase of shares in the existing issued share capital of American Phoenix Group, Inc. and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and

* For identification purpose only

NOTICE OF SPECIAL GENERAL MEETING

- b. any one director of the Company be and is hereby authorized to sign, seal, execute, perfect and deliver any documents and to do all such acts, matters and things as he may in his discretion consider necessary or expedient or desirable in connection with and for the purposes of implementing, completing and giving effect to the 2nd Acquisition Agreements and the transactions contemplated thereunder including, without limitation, the allotment and issue of such number of new shares of the Company to the vendors thereof in accordance with the terms of the 2nd Acquisition Agreements.”

By Order of the Board
COMPASS PACIFIC HOLDINGS LIMITED
Law Wing Tak Jack
Director

Hong Kong, 28 June 2005

Registered Office
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business in Hong Kong
Suites 612-617, 6th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

Notes:

1. Any shareholder of the Company entitled to attend and vote at the special general meeting is entitled to appoint one or more proxies to attend and, in the event of a poll, to vote in his stead. A proxy need not be a shareholder of the Company.
2. In order for it to be valid, the form of proxy, accompanied by a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be completed and returned in accordance with the instructions printed thereon.