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## **FIRST SHANGHAI INVESTMENTS LIMITED**

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 227)

### **MAJOR TRANSACTION DISPOSAL OF INTEREST IN GEOBY INTERNATIONAL HOLDINGS LIMITED AND GRANT OF OPTIONS TO INDIVIDUAL EXCEEDING THE 1% LIMIT UNDER THE SHARE OPTION SCHEME**

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A notice convening the EGM (as defined herein) to be held on Wednesday, 28th December, 2005 at 3:00 p.m. at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong is set out on pages 98 to 100 of this circular. If you are not able to attend the EGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment of it should you so wish.

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## DEFINITIONS

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

“Associates”	the meaning ascribed thereto in the Listing Rules;
“Board”	the board of directors of the Company;
“CRF”	CRF Investment Limited, a company incorporated in the British Virgin Islands;
“Capital Expenditure”	the aggregate actual capital expenditure of the Geoby Group for the period commencing on 1st January, 2005 and ending on Completion Date;
“Capital Force”	Capital Force Investments Limited, a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of the Company;
“Company”	First Shanghai Investments Limited (Stock Code: 227), a company incorporated in Hong Kong, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the G-Baby Agreement;
“Completion Date”	the date for completion of the G-Baby Agreement as described in Section C7 of the Letter from the Board;
“Completion Accounts”	the consolidated profit and loss account of the Geoby Group for the period starting on the day after 31st December, 2004 and ending on the Completion Date and the consolidated balance sheet of the Geoby Group as at the Completion Date;
“Conditions”	the conditions for completion of the G-Baby Agreement described in the section headed “Conditions” in Section C5 of the Letter from the Board;
“Connected Person(s)”	the meaning ascribed thereto in the Listing Rules;
“Directors”	the directors of the Company;
“Dividend Agreement”	the agreement dated 7th November, 2005 between the Company and SB China described in Section D of the Letter from the Board;

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## DEFINITIONS

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“EGM”	the extraordinary general meeting of the Company to be held on Wednesday, 28th December, 2005 at 3:00 p.m. at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong to approve, inter alia, the Transactions;
“EGM Notice”	the notice convening the EGM set out on pages 98 to 100;
“Expected Capital Expenditure”	the targeted capital expenditure of Geoby for the period from 1st January, 2005 to completion of the G-Baby Agreement determined on the basis set out in the G-Baby Agreement;
“Escrow Accounts”	separately designated interest-bearing accounts with a bank to be opened in joint names by the Company, Capital Force and G-Baby and each of the other Vendors and G-Baby;
“Facilities Agreement”	the facilities agreement to be entered into in a form agreed between CRF and PUD prior to Completion by, inter alia, G-Baby as borrower and persons agreed between CRF and PUD as lenders;
“G-Baby”	G-Baby Holding Limited, a company incorporated in the British Virgin Islands;
“G-Baby Agreement”	the agreement dated 7th November, 2005 entered into between the Vendors and G-Baby described in Section C of the Letter from the Board;
“Geoby”	Geoby International Holdings Limited, a company incorporated in the Cayman Islands whose registered office is at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies;
“Geoby Agreement”	the agreement dated 7th November, 2005 entered into between the Company, Capital Force, SB China, CRF and PUD described in Section A of the Letter from the Board;
“Geoby Group”	Geoby and its subsidiaries;
“Geoby Shares”	shares of HK\$0.01 each in Geoby;
“Group”	the Company and its subsidiaries;
“Kinmoss”	Kinmoss Enterprises Limited, a company incorporated in the British Virgin Islands the shares of which are wholly-owned by Mr. Lao;

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## DEFINITIONS

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“Latest Practicable Date”	12th December, 2005 being the latest practicable date for ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Lao”	Mr. Lao Yuan Yi, the Chairman and an executive director of the Company;
“Net Debt Figure”	more particularly described in the G-Baby Agreement being the indebtedness of the Geoby Group less any cash and cash equivalents held by the Geoby Group on Completion Date;
“New Option”	the proposed grant of options to subscribe for an aggregate of 22,842,000 Shares to Mr. Lao as described herein;
“Option(s)”	option(s) to subscribe for Shares under the terms of the Share Option Scheme 2002 and Share Option Scheme 1994;
“PUD”	Pacific United Development Limited, a company incorporated in the British Virgin Islands;
“SB China”	SB China Holdings Pte Limited, a company incorporated in Singapore;
“SB China Agreement”	the agreement dated 27th May, 2003 between SB China and the Company whereby, inter alia, SB China agreed to sell and the Company agreed to buy the 2003 Geoby Shares;
“SBC Deed of Discharge”	the deed of discharge between the Company and SB China in relation to the SB China Agreement as described in paragraph D of the Letter from the Board;
“SFO”	the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong);
“Share Option Scheme 1994”	the share option scheme adopted by the Company on 12th May 1994;
“Share Option Scheme 2002”	the share option scheme adopted by the Company on 24th May, 2002;
“Shares”	shares of a par value of HK\$0.20 each in the Company;
“Shareholder(s)”	(a) holder of (a) Share(s);

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## DEFINITIONS

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“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Tax Indemnity”	the tax indemnity to be entered into by the Vendors in favour of G-Baby described in Section C6 of the Letter from the Board;
“Transactions”	the Geoby Agreement, the G-Baby Agreement and the Dividend Agreement and transactions contemplated thereunder;
“Vendors”	the Company, Capital Force, SB China, CRF and PUD;
“Working Capital Amount”	the working capital (being total current asset items minus total current liability items) of the Geoby Group as more particularly described in the G-Baby Agreement on the Completion Date;
“2003 Geoby Shares”	1,456,000 Geoby Shares sold by SB China to the Company under the SB China Agreement.



# FIRST SHANGHAI INVESTMENTS LIMITED

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 227)

*Executive Directors*

Mr. Lao Yuan Yi (Chairman)

Mr. Xin Shulin

Mr. Yeung Wai Kin

Mr. Hu Yi Ming

*Registered Office and Head Office*

Room 1903, Wing On House

71 Des Voeux Road Central

Hong Kong

*Non-executive Director*

Mr. Kwok Lam Kwong, Larry, J.P.

*Independent Non-executive Directors*

Prof. Woo Chia Wei

Mr. Liu Ji

Mr. Yu Qi Hao

13th December, 2005

*To the Shareholders*

Dear Sir/Madam,

**MAJOR TRANSACTION  
DISPOSAL OF INTEREST  
IN GEOBY INTERNATIONAL HOLDINGS LIMITED  
AND  
GRANT OF OPTIONS TO INDIVIDUAL EXCEEDING  
THE 1% LIMIT UNDER THE SHARE OPTION SCHEME**

**INTRODUCTION**

It was set out in the announcement of the Company dated 10th November, 2005 that on 7th November, 2005, the Company entered into the following agreements to dispose of its entire interest in Geoby:–

- (i) the Geoby Agreement with Capital Force, SB China, CRF and PUD whereby, amongst other things, Capital Force, SB China and CRF agreed to sell and PUD agreed to purchase 827,824 Geoby Shares for an aggregate consideration of US\$2,201,671;
- (ii) the G-Baby Agreement with Capital Force, SB China and CRF and PUD (as vendors) and G-Baby (as purchaser) whereby, amongst other things, the Vendors agreed to sell and G-Baby agreed to purchase 27,300,000 Geoby Shares, representing the entire issued share capital of Geoby for an aggregate consideration of US\$122,500,000, subject to adjustments.

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## LETTER FROM THE BOARD

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On 7th November, 2005, the Company also entered into the Dividend Agreement with SB China whereby, in consideration of HK\$7,600,000 payable by the Company to SB China, SB China will, inter alia, discharge and release the Company from all rights and claims for all dividends attributable to the 2003 Geoby Shares, unpaid consideration or other obligations arising from or in connection with the SB China Agreement.

The Transactions constitute a major transaction for the Company under Rule 14.06 of the Listing Rules and are subject to approval of shareholders at the EGM.

This circular contains details of the Transactions as required under the Listing Rules.

### A. THE GEOBY AGREEMENT

1. Date: 7th November, 2005
2. Parties: the Company  
Capital Force  
SB China  
CRF  
(as vendors)  
  
PUD (as purchaser)
3. Subject matter: The Company, Capital Force, SB China, CRF agreed to sell and PUD agreed to purchase an aggregate of 827,824 Geoby Shares representing approximately 3% of the issued share capital of Geoby.
4. Reasons: The management team of the Geoby Group was granted options to subscribe for Geoby Shares under various option/shareholders agreements (entered into between December 2000 to July 2003) by reference to the profits of the Geoby Group at that time. If such options were to be exercised, the shareholding of the shareholders in Geoby would be diluted. In view of the G-Baby Agreement and to facilitate its completion, the Company, Capital Force, CRF and SB China and PUD (ultimately controlled by the management team of Geoby Group) agreed to settle these outstanding options by a transfer of existing Geoby Shares to PUD.
5. Consideration: US\$2,201,671 (approximately US\$2.66 per Geoby Share) payable in cash on completion pro-rata to the sellers' shareholding in the Company. The Company and Capital Force's share of the consideration is US\$1,378,002 and US\$166,397 respectively.

The consideration was determined by arm's-length negotiation between the parties to the Geoby Agreement based on the fair value of the options to purchase Geoby Shares previously agreed to be granted to employees of Geoby with reference to the net profit of Geoby Group from 2001-2004.



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## LETTER FROM THE BOARD

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6. Conditions: Completion of the Geoby Agreement is conditional upon the shareholders of the Company having approved the Geoby Agreement and the transactions contemplated thereunder at a general meeting in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

If the conditions are not fulfilled by 31st January, 2006 or such other date as may be agreed by the parties, the Geoby Agreement shall become null and void.

7. Completion: It is expected that completion of the Geoby Agreement will take place at the same time as Completion of the G-Baby Agreement so that the 827,824 Geoby Shares will be transferred by the Company, Capital Force, SB China and CRF to G-Baby at the direction of PUD and the consideration will be paid by G-Baby to the Company, Capital Force, SB China and CRF at the direction of PUD out of the cash consideration payable to PUD under the G-Baby Agreement.

### **B. DEED OF DISCHARGE**

1. Date: 7th November, 2005
2. Parties: (i) 好孩子集團有限公司(Jiangsu Goodbaby Group Corporation Limited)
- (ii) Sure Growth Investments Limited
- (iii) Mr. Song Zhenghuan (宋鄭還)

(being management of the Geoby Group and their investment vehicles)

Mr. Song Zhenghuan (宋鄭還) is the general manager and founder of the Geoby Group. Jiangsu Goodbaby Group Corporation Limited and Sure Growth Investments Limited are held by the management team of Geoby Group (including Song Zhenghuan (宋鄭還), Fu Jingqiu (富晶秋), Wang Haiye (王海燁), Liu Tongyou (劉同友)).

- (iv) the Company
- (v) CRF
- (vi) SB China
- (vii) PUD
- (viii) Capital Force

(being the present shareholders of Geoby)

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## LETTER FROM THE BOARD

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(ix) Geoby

The above (save for CRF which acquired its shares in Geoby from The China Retail Fund LDC on 4th November, 2005) are all parties to the shareholders and option agreements described in Section A4 above.

3. Terms: Conditional upon completion of Geoby Agreement, the parties agreed to discharge each other's obligations under various option and shareholders agreements in respect of a plan for issuing shares to the employees, officers, directors and/or consultants of Geoby and its subsidiaries as described in more detail in section A4 above.

### C. THE G-BABY AGREEMENT

1. Date: 7th November, 2005
2. Parties: the Company  
Capital Force  
SB China  
CRF  
PUD  
(as vendors)
- G-Baby (as purchaser)
3. Subject matter: The Vendors agreed to sell and G-Baby agreed to purchase, 27,300,000 Geoby Shares, representing the entire issued share capital of Geoby.
4. Consideration
- (a) The aggregate consideration is US\$122,500,000 (approximately US\$4.49 per Geoby Share) which is to be paid to the Vendors pro-rata to their shareholding. The Company and Capital Force will receive their share of the consideration of US\$51,780,090 and US\$6,252,593 respectively.
- The consideration was arrived at after arm's length negotiation between the Vendors and the Purchaser, and represents the equivalent of approximately 15.7 times the audited consolidated net profit after tax and minority interests of Geoby for the year ended 31st December, 2004 of HK\$60.7 million.
- (b) The consideration is payable on Completion as follows:-
- (i) for the Company, Capital Force, SB China and CRF, 5% of the Consideration shall be paid into the Escrow Accounts and the balance shall be released to each of the Vendors on Completion.

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## LETTER FROM THE BOARD

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- (ii) The consideration payable to Capital Force, the Company, SB China and CRF shall be satisfied entirely in cash. The consideration payable to PUD shall be satisfied partly in cash and partly by the issue of shares in G-Baby but this will not affect the consideration received by the Company and Capital Force.

If there are claims by G-Baby for breaches of the warranties given by the Vendors in the G-Baby Agreement or under the Tax Indemnity, the amounts claimed together with any amounts to be paid by the Vendors to G-Baby for adjustments to the consideration as described in paragraph 4(c) below will be retained in the Escrow Accounts. If no claims are made by G-Baby under the G-Baby Agreement up to nine months from Completion, 50% of the amounts in the Escrow Accounts will be paid to the Vendors 9 months after Completion and the balance will be paid to the Vendors 12 months after Completion if no claims are made by G-Baby under the G-Baby Agreement up to 12 months from Completion. G-Baby is entitled to make claims under the G-Baby Agreement for breaches of the warranties up to 18 months from Completion and under the Tax Indemnity, up to 31st January, 2011.

- (c) The consideration is subject to adjustments as follows.

Within 10 days from the finalisation of the Completion Accounts, the following amounts (if any) shall be deducted from the balance standing in the Escrow Account on a dollar for dollar basis and refunded to G-Baby:

- (i) the amount by which the Net Debt Figure is greater than US\$34 million;
- (ii) any amount by which the Working Capital Amount is less than the US dollars equivalent RMB\$338 million; and
- (iii) any amount by which the Capital Expenditure is less than the Expected Capital Expenditure.

### 5. Conditions

Completion of the G-Baby Agreement is conditional upon:-

- (i) the shareholders of the Company having approved the G-Baby Agreement and transactions contemplated thereunder at a general meeting in accordance with the Listing Rules;
- (ii) there having not occurred any material adverse change (as defined in the G-Baby Agreement); and
- (iii) registration with the State Administration for Foreign Exchange of the direct investments made by PRC nationals in PUD and their indirect investments in any other Geoby Group members, and subsequent changes to such investments being obtained.

The G-Baby Agreement and the Geoby Agreement are an integral part of the Transactions.

## LETTER FROM THE BOARD

### 6. Tax Indemnity and other documents

On completion of the G-Baby Agreement, the Vendors will execute, inter alia:–

- (i) a tax indemnity in favour of G-Baby against tax liabilities of the Geoby Group, inter alia, as a result of events occurring or income, profits or gains earned accrued or received prior to completion of the G-Baby Agreement; and
- (ii) termination deeds to release, inter alia, the profit allocation memorandum dated 12th May, 2002 between the original shareholders of Geoby and option agreement dated 27th December, 2000 between Geoby and Jiangsu Goodbaby Group Corporation Ltd.

7. Completion of the G-Baby Agreement is to take place on the day which is four business days after the date (not being later than 31st January, 2006 or such other date agreed by the Vendors and G-Baby) on which the last of the Conditions (save for Condition set out in paragraph C5(ii) above) to be satisfied or waived is satisfied or waived provided that such date shall not be earlier than 31st January, 2006 if the Facilities Agreement has not been signed by the first mentioned date, and in any event by 31st January, 2006 (or such other date as the Vendors and G-Baby may agree) whether or not the Facilities Agreement has been signed.

After Completion, the Company will have no shareholding in Geoby and Geoby will no longer be a jointly controlled entity of the Company.

### 8. Shareholding changes of Geoby:–

Name	Existing shareholding		Geoby Agreement	G-Baby Agreement		After Completion of the Geoby Agreement and G-Baby Agreement	
	(1) No. of Geoby Shares as at the Latest Practicable Date	(2) %		(3) No. of Geoby Shares sold under Geoby Agreement	(4) No. of Geoby Shares held on completion of the Geoby Agreement and to be sold under G-Baby Agreement	(5) %	(6) No. of Geoby Shares held on Completion
The Company	12,057,689	44.167%	518,126	11,539,563	42.269%	0	0%
Capital Force	1,456,000	5.333%	62,565	1,393,435	5.104%	0	0%
CRF (Note 1)	3,603,600	13.200%	154,849	3,448,751	12.633%	0	0%
SB China	2,147,600	7.867%	92,284	2,055,316	7.529%	0	0%
PUD	8,035,111	29.433%	0	8,862,935	32.465%	0	0%
G-Baby (Note 1)	0	0%	0	0	0%	27,300,000	100%
<b>TOTAL</b>	<b>27,300,000</b>	<b>100%</b>	<b>827,824</b>	<b>27,300,000</b>	<b>100%</b>	<b>27,300,000</b>	<b>100%</b>

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## LETTER FROM THE BOARD

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*Note 1:* CRF and G-Baby are ultimately held by Pacific Alliance II L.P.

*Note 2:* In the event completion of the Geoby Agreement does not occur, the numbers of Geoby Shares sold under the G-Baby Agreement by the Vendors will be those set out in column (1) of this table and the Company and Capital Force will receive in addition US\$1,378,002 and US\$166,397 respectively from G-Baby.

### 9. Reasons for the G-Baby Agreement:–

The G-Baby Agreement represents a good opportunity for the Company to realise its investment in Geoby on favourable terms and to raise approximately US\$58.033 million.

In order to settle options granted to the management team of the Geoby Group and to facilitate completion of the G-Baby Agreement, the Geoby Agreement was entered into. Further details of the reasons of the Geoby Agreement are set out in Section A4 above. The sale of the Geoby Shares by the Company and Capital Force under the Geoby Agreement will generate proceeds of approximately US\$1.544 million.

### D. DIVIDEND AGREEMENT

On 27th May, 2003, the Company and SB China entered into the SB China Agreement whereby, inter alia, SB China agreed to sell and the Company agreed to purchase the 2003 Geoby Shares, which transfer was completed on 25th July, 2003. The SB China Agreement provided that, inter alia, all dividends attributable to the 2003 Geoby Shares for the period up to the date of completion of the SB China Agreement, 25th July, 2003 (“Relevant Dividend”) would be part of the consideration due to SB China from the Company for the 2003 Geoby Shares under the SB China Agreement. Geoby did not declare or pay the Relevant Dividend to any of its shareholders. The cash resources of the Geoby Group were retained for business development of the Geoby Group. During the period of negotiation of the G-Baby Agreement, SB China referred to the SB China Agreement and asked the Company for payment of the Relevant Dividend upon completion of the G-Baby Agreement. Hence the Dividend Agreement was entered into at the same time as the G-Baby Agreement. No legal proceedings have been issued by SB China against the Company for the payment of the Relevant Dividend.

SB China and the Company have on 7th November, 2005 entered into the Dividend Agreement whereby, inter alia, in consideration of the payment of HK\$7,600,000 (being the sum which the Company and SB China agreed to be the potential dividend attributable to the 2003 Geoby Shares based on the profits of the Geoby Group at the relevant time) by the Company to SB China, SB China will, inter alia, discharge and release the Company from all rights and claims for all dividends attributable to the 2003 Geoby Shares, unpaid consideration or other obligations arising from or in connection with the SB China Agreement.

Completion is conditional upon the following conditions having been fulfilled:–

- (a) the shareholders of the Company having approved the Dividend Agreement and the transactions contemplated thereunder at a general meeting in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

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## LETTER FROM THE BOARD

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- (b) completion of the G-Baby Agreement; and
- (c) the SBC Deed of Discharge having been entered into between the Company and SB China whereby the Company and SB China agree, inter alia, that the SB China Agreement will terminate and no party shall have any claims against the other thereunder.

If the conditions have not been fulfilled by 31st January, 2006 or such other date as agreed by the Company and SB China, the Dividend Agreement shall be null and void and of no effect.

The SBC Deed of Discharge will be entered into after the Dividend Agreement has been approved by shareholders at the EGM and immediately prior to completion of the Dividend Agreement.

### **E. GENERAL INFORMATION**

#### **1. Geoby**

As at the Latest Practicable Date, the Group held 49.5% of Geoby. After Completion, the Group will have no shareholding in Geoby. Geoby is engaged in the production and sale of juvenile products including strollers and bicycles in China.

The net profits before and after tax and minority interests and the net asset value for Geoby based on its audited financial statements for the year ended 31st December, 2004 was HK\$72.6 million, HK\$60.7 million and HK\$594.5 million respectively.

The net profits before and after tax and minority interests and the net asset value for Geoby based on its audited financial statements for the year ended 31st December, 2003 was HK\$89.8 million and HK\$59.1 million and HK\$533.3 million respectively.

Geoby has been accounted for as a jointly controlled entity by the Group since Geoby's establishment in 2001.

#### **2. Background of the Vendors**

Capital Force is a wholly-owned subsidiary of the Company. The principal business of Capital Force is investment holding.

The ultimate beneficial owners of SB China are Softbank Corporation and UTStarcom, Inc. The principal business activity of SB China is investment holding.

The ultimate beneficial owner of CRF and G-Baby is Pacific Alliance II L.P. The principal business activity of CRF is investment holding. G-Baby is principally engaged in investment holding.

The beneficial owners of PUD are Song Zhenghuan (宋鄭還), Fu Jingqiu (富晶秋), Wang Haiye (王海燁), Liu Tongyou (劉同友) and other employees and former employees of Goodbaby Child Products Co. Ltd., a subsidiary of Geoby. The principal business of PUD is investment holding.

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## LETTER FROM THE BOARD

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To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, SB China, CRF, PUD, G-Baby and their ultimate beneficial owners are not Connected Persons of the Company and are otherwise independent of the Company and Connected Persons of the Company.

The Company and its subsidiaries are principally engaged in investment holding, securities dealing, logistics and property holding and management.

The Directors (including the independent non-executive directors) are of the view that the terms of the Transactions are fair and reasonable and in the interests of shareholders as a whole.

### **F. IMPLICATIONS UNDER THE LISTING RULES**

The Transactions constitute a major transaction for the Company under Rule 14.06 of the Listing Rules and are subject to approval of shareholders at the EGM.

So far as the Company is aware, as at the Latest Practicable Date, none of the shareholders have a material interest in the Geoby Agreement, the G-Baby Agreement and the Dividend Agreement. Hence none of the shareholders is required to abstain from voting at the EGM on the Transactions.

### **G. USE OF PROCEEDS**

The gain on disposal by the Company and Capital Force of the Geoby Shares pursuant to the G-Baby Agreement and the Geoby Agreement is expected to be approximately HK\$81.7 million after deducting the cost of sales of approximately HK\$380.6 million (representing net book value of the investment in Geoby under the equity accounting method as at 30th September, 2005 (approximately HK\$330 million), goodwill of the Company's investment in Geoby not written off to the profit and loss account (approximately HK\$37 million), expenses for the Transactions and payment to SB China) from the sale proceeds of approximately HK\$462.3 million (US\$59.577 million at the exchange rate of US\$1.00 = HK\$7.76).

Geoby is not a subsidiary of the Company. The disposal of shares in Geoby will not have impact on the revenue of the Group. After the disposal, the Group will cease to be entitled to dividend income from Geoby. After the disposal, the Group will have no Geoby Shares.

Upon successful Completion after 31st December, 2005 and before 31st December, 2006, an accounting profit before tax of approximately HK\$81.7 million (which amount is subject to further adjustment and review by the Company's auditors for the year ending 31st December, 2006) will be recorded into the Group's consolidated profit and loss account for the financial year ending 31st December, 2006.

Upon completion of the disposal, the consolidated cash balance of the Group will be increased by approximately HK\$449 million being the sale proceeds from the disposal less expenses for the Transactions and payment to SB China.

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## LETTER FROM THE BOARD

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The Company intends to use the net sale proceeds of approximately HK\$449 million received from the disposal to explore appropriate investment opportunities in the future and to provide additional working capital for the Company. The Company had not identified any new investment opportunities as at the Latest Practicable Date.

### GRANT OF OPTIONS TO INDIVIDUAL EXCEEDING THE 1% LIMIT UNDER THE SHARE OPTION SCHEME

The Share Option Scheme 2002 was adopted on 24th May, 2002. Pursuant to the terms of the Share Option Scheme 2002, among other things, the total number of Shares issued and to be issued upon exercise of the Options granted to each participant under the Share Option Scheme 2002 and any other schemes of the Group (including both exercised and outstanding Options) in any 12-month period must not exceed 1% of the issued Share capital of the Company for the time being (the “Individual Limit”).

The Company proposes to grant the New Option to Mr. Lao as follow:

Name	Position	No. of Shares to be issued upon exercise of the New Option	% of issued share capital as at the date of grant
Mr. Lao	Chairman Executive Director	22,842,000	1.93%

Mr. Lao holds options to subscribe for 15,503,900 Shares in aggregate under the Share Option Scheme 1994, details of which are set out in Appendix III. As referred to in the Circular dated 23rd April, 2002 in relation to the adoption of the Share Option Scheme 2002, the Share Option Scheme 2002 allows the Board to grant options to subscribe for up to 113,132,370 Shares provided that the number of Shares to be issued in respect of outstanding options granted and yet to be exercised under the Share Option Scheme 2002, when aggregated with any other schemes of the Company including the Share Option Scheme 1994 shall not exceed 30% of Shares in issue of the Company from time to time. The Share Option Scheme 2002 has sufficient capacity to allow for the grant of the New Option.

As at the Latest Practicable Date, the Company has 1,181,029,805 shares in issue. No options were granted to Mr. Lao under the Share Option Scheme 2004 in the 12 month period prior to 30th November, 2005 (the date of the board resolution to approve the grant of the New Option). If the proposal to grant the New Option to Mr. Lao is approved by the Shareholders at the EGM, the total number of Shares issued and to be issued to Mr. Lao upon exercise of the New Option (including both exercised and outstanding Options) will exceed the 1% Individual Limit.

The exercise price of the New Option is HK\$0.564 and was determined by the Board pursuant to resolution dated 30th November, 2005 and represents at least the higher of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of grant (as defined in the Listing Rules); (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) HK\$0.20, being the nominal value of a Share. Further details regarding the proposed grant of the New Option to Mr. Lao are set out in Appendix III to this circular.



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## LETTER FROM THE BOARD

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Pursuant to the Listing Rules Rule 17.03(4), any grant of Options exceeding the 1% Individual Limit requires Shareholders' approval in a general meeting. Hence, resolutions will be proposed at the EGM to approve the grant of the New Option (Resolutions No. 2 in the notice of EGM). The vote in relation to this resolution will be taken on a poll at the EGM.

According to the Listing Rules Rule 17.04(1), all connected persons are required to abstain from voting on the grant of the New Option. As at the Latest Practicable Date, Kinmoss (the shares of which are beneficially held by Mr. Lao) and Mr. Lao held 72,952,000 and 51,870,100 Shares respectively, representing in aggregate 10.57% of the issued share capital of the Company, Prof. Woo Chai Wei (an independent non-executive director of the Company) held 72,000 Shares representing 0.006% of the issued share capital of the Company and China Assets (Holdings) Limited held 248,249,300 Shares representing approximately 21.1% of the issued share capital of the Company. Accordingly, Mr. Lao, Kinmoss, Prof. Woo Chai Wei and China Assets (Holdings) Limited (being connected persons of the Company as at the Latest Practicable Date), will abstain from voting at the EGM on Resolution No. 2 to approve the grant of the New Option.

### **PROCEDURES FOR DEMANDING POLL BY SHAREHOLDERS**

Pursuant to Article 60 of the Articles of Association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless before or on the declaration of the result of the show of hands a poll is demanded:—

- (i) by the chairman of the meeting; or
- (ii) by or on behalf of two shareholders or; or
- (iii) by or on behalf of any shareholder entitled to vote at a meeting, and holding in the aggregate not less than 10 per cent. of the paid up share capital of the Company, carrying the right to vote at the meeting; or
- (iv) by or on behalf of any shareholder representing not less than one tenth of the total voting rights of all the members having a right to vote at a meeting.

### **RECOMMENDATION**

The Board (including the independent non-executive directors) is of the opinion that the terms of the Agreement are fair, reasonable and in the best interest of the Company and the Shareholders as a whole, and recommends you to vote in favour of the resolution to be proposed at the EGM to approve the Transactions.

The independent non-executive director's views on the grant of the New Option are set out in Appendix III and they recommend shareholders (other than connected persons (as defined in the Listing Rules) to vote in favour of the resolution to approve the grant of the New Option.

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## LETTER FROM THE BOARD

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Whether or not Shareholders are able to attend the EGM, Shareholders are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the EGM should Shareholders so wish.

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

Yours faithfully,

**Lao Yuan Yi**

*Chairman*

1. Set out below are (1) the audited financial statements of the Group for the financial year ended 31st December 2004 together with the relevant notes as extracted from the annual report of the Company for the year ended 31st December 2004 and (2) the unaudited financial statements of the Group for the six months ended 30th June 2005 together with the relevant notes as extracted from the interim report of the Company for the six months ended 30th June 2005.

### Consolidated Profit and Loss Account

For the year ended 31st December 2004

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	2	587,845	281,351
Cost of sales		<u>(386,118)</u>	<u>(176,922)</u>
Gross profit		201,727	104,429
Other revenue	2	2,427	3,528
Distribution costs		(7,748)	(96)
General and administrative expenses		(167,260)	(97,785)
Other operating expenses	3	(28,174)	(21,532)
Other operating income	3	<u>15,798</u>	<u>35,358</u>
Operating profit	3	16,770	23,902
Finance costs	4	(4,709)	(1,882)
Share of profits less losses of			
– Associated companies	15	57,097	42,525
– Jointly controlled entities	16	<u>25,515</u>	<u>42,965</u>
Profit before taxation		94,673	107,510
Taxation	6(a)	<u>(14,211)</u>	<u>(16,208)</u>
Profit after taxation		80,462	91,302
Minority interests		<u>(110)</u>	<u>2,518</u>
Profit attributable to shareholders	7	<u>80,352</u>	<u>93,820</u>
Dividend	8	<u>11,737</u>	<u>14,084</u>
Earnings per share			
– basic	9	<u>6.85 cents</u>	<u>8.00 cents</u>
– fully diluted	9	<u>6.72 cents</u>	<u>7.88 cents</u>

**Balance Sheet***As at 31st December 2004*

	Note	Group		Company	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>					
Intangible assets	12	11,887	17,916	–	–
Fixed assets	13	270,426	228,606	243	332
Deposits for land		–	9,738	–	–
Investments in subsidiaries	14	–	–	859,389	832,654
Investments in associated companies	15	370,798	302,059	–	–
Investments in jointly controlled entities	16	348,390	328,640	124,171	112,378
Investment securities	17	89,471	99,100	56,251	59,441
Loans receivable	18	10,028	–	–	–
		<u>1,101,000</u>	<u>986,059</u>	<u>1,040,054</u>	<u>1,004,805</u>
<b>Current assets</b>					
Inventories	19	5,888	57,074	–	–
Other investments	20	2,425	24,393	–	15,150
Loans and advances		112,779	82,098	–	–
Accounts receivable	21	120,886	232,816	–	–
Other receivables, prepayments and deposits	22	93,337	52,468	1,812	21,855
Taxation recoverable	6(b)	–	25	–	–
Pledged bank deposits	30(a)	15,000	15,000	–	–
Bank balances and cash	30(b)	186,972	310,433	3,967	21,928
		<u>537,287</u>	<u>774,307</u>	<u>5,779</u>	<u>58,933</u>
<b>Current liabilities</b>					
Short-term bank loans and overdrafts, secured	23	86,863	146,308	69,882	50,000
Accounts payable	24	64,259	201,096	–	–
Accruals		65,773	64,889	14,455	12,759
Taxation payable	6(b)	3,202	4,342	–	–
		<u>220,097</u>	<u>416,635</u>	<u>84,337</u>	<u>62,759</u>
Net current assets/(liabilities)		<u>317,190</u>	<u>357,672</u>	<u>(78,558)</u>	<u>(3,826)</u>
Total assets less current liabilities		1,418,190	1,343,731	961,496	1,000,979
<b>Non-current liabilities</b>					
Deferred tax liabilities	28	1,057	1,332	–	–
Due to subsidiaries		–	–	110,618	122,609
		<u>1,057</u>	<u>1,332</u>	<u>110,618</u>	<u>122,609</u>
		<u>1,417,133</u>	<u>1,342,399</u>	<u>850,878</u>	<u>878,370</u>
Financed by:					
Share capital	25	234,738	234,738	234,738	234,738
Other reserves	26	741,237	736,629	611,006	611,006
Retained profits	27	354,352	288,430	5,134	32,626
		<u>1,330,327</u>	<u>1,259,797</u>	<u>850,878</u>	<u>878,370</u>
<b>Shareholders' funds</b>		1,330,327	1,259,797	850,878	878,370
Minority interests		86,806	82,602	–	–
		<u>1,417,133</u>	<u>1,342,399</u>	<u>850,878</u>	<u>878,370</u>

**Consolidated Cash Flow Statement***For the year ended 31st December 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Net cash inflow/(outflow) used in operations	29(a)	11,467	(20,569)
Hong Kong profits tax paid		(6,014)	(3,935)
Overseas taxation paid		(4,615)	(350)
Interest paid		(4,709)	(1,882)
		<hr/>	<hr/>
Net cash outflow used in operating activities		(3,871)	(26,736)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Investing activities			
Interest received		2,427	3,528
Dividends received from listed investments		497	787
Dividends received from jointly controlled entities and associated companies		13,331	17,982
Net cash outflow in respect of the acquisition of subsidiaries	29(c)	(11,464)	(10,842)
Net cash outflow in respect of the disposal of subsidiaries	29(d)	(11,619)	–
Increase in investments in subsidiaries		(7,736)	–
Increase in investments in jointly controlled entities		–	(62,002)
Proceeds from disposal of partial interest in an associated company		–	40,631
Repayment of a loan granted to a jointly controlled entity		–	3,617
Loans receivable made to a third party		(10,028)	–
Proceeds from disposal of fixed assets		207	2
Purchase of fixed assets		(75,241)	(39,954)
Purchase of long-term investments		(2,341)	(1,057)
Proceeds from disposal of investment securities		9,201	6,000
		<hr/>	<hr/>
Net cash outflow from investing activities		(92,766)	(41,308)
		<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Net cash outflow before financing activities		(96,637)	(68,044)
Financing activities	<i>29(b)</i>		
Dividend paid		(14,084)	(11,733)
Dividend paid to minority shareholders of subsidiaries		(1,640)	(2,470)
Issue of ordinary shares		–	152
Share issue expenses		–	(6)
New short-term bank loans		17,919	120,000
Repayment of short-term bank loans		(70,000)	–
Capital contribution to subsidiaries by its minority shareholders		19,251	12,030
Net cash (outflow)/inflow from financing activities		(48,554)	117,973
(Decrease)/increase in cash and cash equivalents		(145,191)	49,929
Cash and cash equivalents at 1st January		310,433	254,194
Effect of foreign exchange rate changes		1,848	6,310
Cash and cash equivalents at 31st December		<u>167,090</u>	<u>310,433</u>
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		186,972	310,433
Overdrafts		(19,882)	–
		<u>167,090</u>	<u>310,433</u>

**Consolidated Statement of Changes in Equity***For the year ended 31st December 2004*

	<i>Note</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Shareholders' funds as at 1st January 2004		1,259,797	1,160,252
Share of post-acquisition reserves of an associated company and a jointly controlled entity	26	4,924	19
Exchange differences on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	26	2,248	8,280
Net gains not recognised in the consolidated profit and loss account		1,266,969	1,168,551
Profit attributable to shareholders		80,352	93,820
Total recognised gains		1,347,321	1,262,371
Issue of shares		–	146
Reversal of (negative goodwill)/goodwill against reserve upon disposal of subsidiaries	26	(2,910)	9,013
Dividend paid	27	(14,084)	(11,733)
Shareholders' funds as at 31st December 2004		<u>1,330,327</u>	<u>1,259,797</u>

**NOTES TO THE ACCOUNTS**

*For the year ended 31st December 2004*

**1. PRINCIPAL ACCOUNTING POLICIES**

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

**(a) Basis of preparation**

The accounts 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 (“HKICPA”). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties, investment properties and other investments are stated at fair value.

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 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of 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.

**(b) Group accounting***(i) Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal or change in status, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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 or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and also any related accumulated exchange fluctuation reserve.

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

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



(ii) *Jointly controlled entities*

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less accumulated impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued under the carrying amount of the investment in a jointly controlled entity reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the jointly controlled entities.

(iii) *Associated companies*

An associated company is a company, not being a subsidiary or a jointly controlled entity, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

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

(iv) *Translation of foreign currencies*

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheet of subsidiaries, jointly controlled entities and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) **Fixed assets**

(i) *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, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods more than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the assets revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Investment properties held on leases with unexpired periods of 20 years or less are depreciated over the remaining term of the leases.

Upon the disposal of an investment property, the relevant portion of the assets revaluation reserve realised in respect of previous valuations is released from the assets revaluation reserve to the profit and loss account.

(ii) *Leasehold land and buildings in Hong Kong*

Prior to 30th September 1995, the Group carried its leasehold land and buildings in Hong Kong at cost or at revalued amounts and revaluation surpluses or deficits were dealt with as movements in the assets revaluation reserve. Effective from 30th September 1995, no further revaluations have been carried out. The Group places reliance on paragraph 80 of SSAP 17 issued by the HKICPA which provides exemption from the need to make regular revaluations for such assets.

(iii) *Leasehold land and buildings outside Hong Kong and other fixed assets*

Leasehold land and buildings outside Hong Kong and other fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses.

(iv) *Construction-in-progress*

Construction-in-progress comprises hotel, factories and office buildings under construction, production plant, machinery and other fixed assets under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs including interest attributable to the development less any impairment losses. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into use.

*(v) Depreciation of fixed assets*

Leasehold land is depreciated over the period of the lease while other tangible fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Land	Over the period of the leases
Buildings	Over the shorter of the term of the leases or 20 to 40 years
Furniture, fixtures and equipment	15% – 33 1/3%
Plant and machinery	10%
Motor vehicles	20%
Trucks	12.5%

Major costs incurred in restoring the fixed assets to their normal working conditions are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

*(vi) Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets other than investment properties are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for that same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

**(d) Intangible assets***(i) Goodwill/negative goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/joint venture/associated company at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful economic life. Goodwill is amortised by equal annual instalment over its estimated useful economic life of 2.5 to 5 years.

Goodwill on acquisitions that occurred prior to 1st January 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

For acquisitions after 1st January 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition, that portion of negative goodwill is recognised in the profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the profit and loss account over the remaining weighted average useful life of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss account immediately.

For acquisitions prior to 1st January 2001, negative goodwill was taken directly to reserves on acquisition.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of or, for pre 1st January 2001 acquisitions, the related goodwill written off against reserves to the extent it has not previously been realised in the profit and loss account.

(ii) *Trading rights*

The trading rights at the Hong Kong Futures Exchange Limited ("Futures Exchange trading right") is recognised as an intangible asset. It is stated at cost and amortised using the straight-line method over its estimated useful life of 10 years.

(iii) *Patent*

Expenditure on acquired patent is capitalised and amortised using the straight-line method over its estimated useful life, but not exceeding 20 years. Patent is not revalued as there is no active market for this asset.

(iv) *Impairment of intangible assets*

Where an indication of impairment exists, the carrying amount of an intangible asset, including goodwill previously eliminated against reserves, is assessed and written down immediately to its recoverable amount.

(e) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

**(f) Investment in securities***(i) Investment securities*

Investment securities are held for identified long term purpose and stated at cost less any accumulated impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account 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.

*(ii) Other investments*

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

**(g) Inventories**

Inventories comprise stocks and work-in-progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour, shipping costs and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

**(h) Accounts receivable**

Provision is made against accounts receivable to the extent that they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

**(i) Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

**(j) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate can be made. 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) 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 accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

**(l) Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and joint controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

**(m) Revenue recognition**

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Revenue from brokerage and commission, management and consultancy and advisory services rendered and container transportation and freight forwarding services is recognised once the duties under the service contracts are performed and outcome of the transactions can be foreseen with reasonable certainty.

All transactions related to securities trading are recorded in the accounts based on trade dates. Accordingly, only those trade dates falling within the accounting year have been taken into account.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the rights to receive payment is established.

Operating lease rental income is recognised on a straight-line basis over the lease periods.

**(n) Employee benefits***(i) Employee leave entitlements*

Employee entitlements to accumulating compensated absences are recognised when they accrue to employees. A provision is made for the estimated liability for accumulating compensated absences as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to non-accumulating compensated absences are not recognised until the time of leave.

*(ii) Profit sharing and bonus plans*

Provisions for profit sharing and bonus plans due wholly within twelve months after the balance sheet date are recognised as a liability when the group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

*(iii) Pension obligations*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

*(iv) Equity compensation benefits*

Share options are granted to Directors and certain employees. The options granted are not recognised in the accounts until they are exercised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

**(o) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition or construction of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

**(p) Segment reporting**

The Group has determined that business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude taxation and deferred taxation. Capital expenditure comprises additions to fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

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

## 2. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in securities trading and investment, corporate finance and stockbroking, container transportation and freight forwarding services, sales of motor vehicles meters and components, investment holding, property holding and management. Revenues recognised are as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover		
Securities trading and investment	99,718	148,163
Corporate finance and stockbroking	104,443	89,324
Container transportation and freight forwarding services	48,606	42,496
Sales of motor vehicles meters and components	310,172	–
Investment holding, property holding and management	24,906	1,368
	<hr/>	<hr/>
	587,845	281,351
Other revenue		
Interest income	2,427	3,528
	<hr/>	<hr/>
Total revenues	<u>590,272</u>	<u>284,879</u>

### Primary reporting format – business segments

The Group is organised into six main business segments:

- Securities trading and investment
- Corporate finance and stockbroking
- Container transportation and freight forwarding services
- Sales of motor vehicles meters and components
- Investment holding, property holding and management
- Sales of child products



	Securities trading and investment 2004 HK\$'000	Corporate finance and stockbroking 2004 HK\$'000	Container transportation and freight forwarding services 2004 HK\$'000	*Sales of motor vehicles meters and components 2004 HK\$'000	Investment holding, property holding and management 2004 HK\$'000	Sales of child products 2004 HK\$'000	Group 2004 HK\$'000
Turnover	99,718	104,443	48,606	310,172	24,906	-	587,845
Segment results	287	53,344	(3,387)	(79)	(35,822)	-	14,343
Other revenue							2,427
Finance costs							(4,709)
Share of profits less losses of							
– Associated companies	-	-	-	(11,693)	56,831	11,959	57,097
– Jointly controlled entities	-	-	-	-	2,437	23,078	25,515
Profit before taxation							94,673
Taxation							(14,211)
Profit after taxation							80,462
Minority interests							(110)
Profit attributable to shareholders							80,352
<b>Balance sheet</b>							
Segment assets	36,894	320,687	103,724	3,154	454,640	-	919,099
Investments in associated companies	-	-	-	9,813	245,495	115,490	370,798
Investments in jointly controlled entities	-	-	-	-	37,125	311,265	348,390
Total assets							1,638,287
Segment liabilities	880	139,046	22,599	1,203	53,167	-	216,895
Taxation payable							3,202
Deferred tax liabilities							1,057
Total liabilities							221,154
<b>Other information</b>							
Capital expenditure	420	2,222	9,795	2,921	72,490	-	87,848
Depreciation	91	1,258	5,546	3,626	4,076	-	14,597
Amortisation charge	-	164	-	(2,409)	20,917	(2,486)	16,186

There are no sales or other transactions among the business segments.

\* As at 31st December 2003, Zhejiang Shaoxing Betung Instrument Company Limited and Zhejiang Shaohong Instrument Company Limited were subsidiaries of the Group. In December 2004, the Group disposed partial interest in these two subsidiaries and these two companies then became associated companies of the Group. Segment results represents eleven months results of these companies.

	Securities trading and investment 2003 HK\$'000	Corporate finance and stockbroking 2003 HK\$'000	Container transportation and freight forwarding services 2003 HK\$'000	*Investment holding, property holding and management 2003 HK\$'000	Sales of child products 2003 HK\$'000	Group 2003 HK\$'000
Turnover	<u>148,163</u>	<u>89,324</u>	<u>42,496</u>	<u>1,368</u>	<u>-</u>	<u>281,351</u>
Segment results	<u>12,668</u>	<u>27,166</u>	<u>(3,368)</u>	<u>(16,092)</u>	<u>-</u>	<u>20,374</u>
Other revenue						3,528
Finance costs						(1,882)
Share of profits less losses of						
- Associated companies	-	-	-	22,549	19,976	42,525
- Jointly controlled entities	-	-	-	3,355	39,610	42,965
Profit before taxation						107,510
Taxation						(16,208)
Profit after taxation						91,302
Minority interests						2,518
Profit attributable to shareholders						<u>93,820</u>
<b>Balance sheet</b>						
Segment assets	43,132	447,202	104,086	535,222	-	1,129,642
Investments in associated companies	-	-	-	188,783	113,276	302,059
Investments in jointly controlled entities	-	-	-	41,581	287,059	328,640
Taxation recoverable						25
Total assets						<u>1,760,366</u>
Segment liabilities	303	205,005	19,475	187,510	-	412,293
Taxation payable						4,342
Deferred tax liabilities						1,332
Total liabilities						<u>417,967</u>
<b>Other information</b>						
Capital expenditure	2	1,277	2,936	88,637	-	92,852
Depreciation	31	1,093	5,433	1,931	-	8,488
Amortisation charge	-	164	-	19,392	(2,761)	16,795

There are no sales or other transactions among the business segments.

\* As at 31 December 2003, segment assets and segment liabilities of sales of motor vehicles, meters and components amounted to HK\$153,239,000 and HK\$91,110,000 respectively.

## Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

Hong Kong – securities trading and investment, corporate finance and stockbroking, investment holding, property holding and management

Chinese Mainland – container transportation and freight forwarding services, sales of motor vehicles meters and components

	<b>Turnover</b> <b>2004</b> <i>HK\$'000</i>	<b>Segment</b> <b>results</b> <b>2004</b> <i>HK\$'000</i>	<b>Total</b> <b>assets</b> <b>2004</b> <i>HK\$'000</i>	<b>Capital</b> <b>expenditure</b> <b>2004</b> <i>HK\$'000</i>
Hong Kong	217,679	48,165	565,493	51,474
Chinese Mainland	369,790	(31,121)	318,035	35,963
Others	376	(2,701)	35,571	411
	<u>587,845</u>	14,343	919,099	<u>87,848</u>
Interest income		<u>2,427</u>		
Operating profit		<u>16,770</u>		
Investments in associated companies			370,798	
Investments in jointly controlled entities			<u>348,390</u>	
Total assets			<u>1,638,287</u>	

There are no sales among the geographical segments.

	<b>Turnover</b> <b>2003</b> <i>HK\$'000</i>	<b>Segment</b> <b>results</b> <b>2003</b> <i>HK\$'000</i>	<b>Total</b> <b>assets</b> <b>2003</b> <i>HK\$'000</i>	<b>Capital</b> <b>expenditure</b> <b>2003</b> <i>HK\$'000</i>
Hong Kong	237,834	51,813	723,789	813
Chinese Mainland	43,007	(26,799)	363,463	91,982
Others	510	(4,640)	42,390	57
	<u>281,351</u>	20,374	1,129,642	<u>92,852</u>
Interest income		<u>3,528</u>		
Operating profit		<u>23,902</u>		
Investments in associated companies			302,059	
Investments in jointly controlled entities			328,640	
Taxation recoverable			<u>25</u>	
Total assets			<u>1,760,366</u>	

There are no sales among the geographical segments.

## 3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
<b>Crediting</b>		
Recovery of the deposit for purchase of an office premises	–	9,000
Recovery of bad debts previously written off	259	700
Dividend income from listed investments*	497	787
Gross rental income from investment properties	–	308
Gain on disposal of long-term investments, listed	591	1,439
Gain on disposal of other investments, unlisted	248	13,259
Gain on disposal of partial interest in an associated company	–	6,002
Gain on disposal of subsidiaries	4,241	–
Amortisation of negative goodwill**	5,521	3,178
	<u>5,521</u>	<u>3,178</u>
<b>Charging</b>		
Depreciation	14,597	8,488
Amortisation of trading rights and patent	683	164
Amortisation of goodwill***	21,024	19,809
Cost of inventories	173,935	–
Staff costs (note 5)	128,263	80,418
Direct expense in respect of container transportation and freight forwarding services	45,249	40,238
Operating leases rental in respect of land and buildings	4,660	2,908
Outgoings in respect of investment properties	85	112
Auditors' remuneration	1,530	1,232
Unrealised loss on revaluation of other investments	–	1,238
Provision for doubtful debts	4,746	–
Loss on disposal of fixed assets	956	36
Net exchange loss	34	298
	<u>34</u>	<u>298</u>

\* included in turnover

\*\* included in other operating income

\*\*\* included in other operating expenses

## 4. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	4,709	1,882
	<u>4,709</u>	<u>1,882</u>

## 5. STAFF COSTS

Staff costs, including directors' remuneration, comprise:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages, salaries and allowance	117,169	72,181
Benefits	6,032	4,722
Pension cost – defined contribution plans	5,062	3,515
	<u>128,263</u>	<u>80,418</u>

## 6. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

(a) The amount of taxation charged to the consolidated profit and loss account represents:

	Group	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax		
Current	6,433	4,426
Under-provision in previous years	35	–
Overseas taxation		
Current	4,610	(215)
Over-provision in previous years	(134)	–
Deferred taxation	(275)	42
Share of taxation attributable to:		
Associated companies	1,470	4,323
Jointly controlled entities	2,072	7,632
Taxation charge	<u>14,211</u>	<u>16,208</u>

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong, the home country of the Group, as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit before taxation	<u>94,673</u>	<u>107,510</u>
Calculated at a taxation rate of 17.5% (2003: 17.5%)	16,568	18,814
Effect of different taxation rates in other countries	(2,386)	(1,135)
Income not subject to taxation	(20,909)	(11,081)
Expenses not deductible for taxation purposes	18,151	5,882
Over-provision in previous years, net	(99)	–
Utilisation of previously unrecognised tax losses	(390)	(280)
Unrecognised deferred tax assets	3,448	3,890
Others	<u>(172)</u>	<u>118</u>
Taxation charge	<u>14,211</u>	<u>16,208</u>

(b) The amount of taxation in the consolidated balance sheet represents:

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Recoverable		
Overseas	<u>–</u>	<u>25</u>
Payable		
Hong Kong profits tax	2,399	1,945
Overseas income taxes	<u>803</u>	<u>2,397</u>
	<u>3,202</u>	<u>4,342</u>

## 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a loss of approximately HK\$13,408,000 (2003: HK\$10,872,000) dealt with in the accounts of the Company.

## 8. DIVIDEND

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Final, proposed, of HK\$0.01 (2003: HK\$0.012) per ordinary share	<u>11,737</u>	<u>14,084</u>

*Note:*

At a meeting held on 18th April 2005, the Directors declared a final dividend of HK\$0.01 per ordinary share. This proposed dividend is not reflected as a dividend payable in the accounts, but will be reflected as an appropriation of retained profits for the year ended 31st December 2005.

## 9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$80,352,030 (2003: HK\$93,819,623). The basic earnings per share is based on the weighted average number of 1,173,691,705 (2003: 1,173,402,915) shares in issue during the year. The diluted earnings per share is based on 1,194,874,270 (2003: 1,190,206,060) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 21,182,565 (2003: 16,803,145) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company are as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees	761	540
Other emoluments:		
Basic salaries and allowances,	6,463	6,431
Discretionary bonuses	5,700	5,000
Retirement scheme contributions	456	400
	<u>13,380</u>	<u>12,371</u>

Directors' fees disclosed above include HK\$761,000 (2003: HK\$540,000) paid to independent non-executive directors.

Certain directors of the Company have been granted options to acquire shares of the Company. Details of share options granted, exercised and lapsed are disclosed in the Report of the Directors.

The emoluments of the directors fell within the following bands:

<b>Emolument bands</b>	<b>Number of directors</b>	
	<b>2004</b>	<b>2003</b>
<i>HK\$</i>		
0 – 1,000,000	4	4
2,500,001 – 3,000,000	1	1
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	1	–
5,000,001 – 5,500,000	–	1
5,500,001 – 6,000,000	1	–
	<u>7</u>	<u>7</u>

No director has waived emolument in respect of the years ended 31st December 2004 and 2003.

**(b) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include three (2003: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: two) individuals during the year are as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	4,167	3,891
Discretionary bonuses	4,692	8,675
Retirement scheme contributions	126	80
	<u>8,985</u>	<u>12,646</u>

The emoluments fell within the following bands:

<b>Emolument bands</b>	<b>Number of individuals</b>	
	<b>2004</b>	<b>2003</b>
<i>HK\$</i>		
2,500,001 – 3,000,000	–	1
3,000,001 – 3,500,000	1	–
5,500,001 – 6,000,000	1	–
9,500,001 – 10,000,000	–	1
	<u>2</u>	<u>2</u>

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

**11. RETIREMENT BENEFIT COSTS**

The Group operates defined contribution retirement schemes which are available to Hong Kong employees. The rates of contributions are 5% of basic salary from the employees and 5% to 15% from the Group as employer depending on the length of service of the individuals. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

No forfeited contributions of defined contribution retirement schemes in Hong Kong was utilised during the year (2003: HK\$25,869). There is no outstanding balance as at the balance sheet dates of 2004 and 2003 available to reduce the contributions payable in the future years.

Contributions totalling HK\$97,355 (2003: HK\$93,144) were payable to the retirement scheme at the year-end and are included in accounts payable.

The Group also contributes to retirement plans for its employees in the Chinese Mainland and overseas. The rates of contributions are approximately 17% to 28% of basic salary from the Group for its employees in the Chinese Mainland and approximately 12% of basic salary from the Group for its overseas employees.



## 12. INTANGIBLE ASSETS

## Group

	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>	Futures Exchange trading rights and Patent <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost				
At 1st January 2004	49,634	(13,195)	4,506	40,945
Acquisition of subsidiaries (note 29(c))	7,630	–	1,299	8,929
Disposal of subsidiaries (note 29(d))	–	4,573	–	4,573
	<u>57,264</u>	<u>(8,622)</u>	<u>5,805</u>	<u>54,447</u>
At 31st December 2004	<u>57,264</u>	<u>(8,622)</u>	<u>5,805</u>	<u>54,447</u>
Accumulated amortisation				
At 1st January 2004	(20,108)	220	(3,141)	(23,029)
Charge for the year	(20,496)	2,563	(683)	(18,616)
Disposal of subsidiaries (note 29(d))	–	(915)	–	(915)
	<u>(40,604)</u>	<u>1,868</u>	<u>(3,824)</u>	<u>(42,560)</u>
At 31st December 2004	<u>(40,604)</u>	<u>1,868</u>	<u>(3,824)</u>	<u>(42,560)</u>
Net book value				
At 31st December 2004	<u>16,660</u>	<u>(6,754)</u>	<u>1,981</u>	<u>11,887</u>
At 31st December 2003	<u>29,526</u>	<u>(12,975)</u>	<u>1,365</u>	<u>17,916</u>

## 13 FIXED ASSETS

## (a) Group

	Investment properties		Land and buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction- in-progress	Total
	Long-term leases in Hong Kong	Long-term leases outside Hong Kong	Long-term leases in Hong Kong	Medium-term leases outside Hong Kong					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost or valuation</b>									
At 1st January 2004	5,700	10,950	97,485	64,464	25,929	40,668	56,095	36,452	337,743
Addition	-	-	-	35,593	4,295	2,058	8,370	34,663	84,979
Acquisition of subsidiaries (note 29(c))	-	-	-	-	2,516	-	353	-	2,869
Disposal	-	-	-	(423)	(1,874)	(287)	(4,523)	(202)	(7,309)
Disposal of subsidiaries (note 29(d))	-	-	-	(26,985)	-	(32,282)	(2,059)	-	(61,326)
Transfers	(5,700)	-	5,700	-	-	-	-	-	-
Exchange adjustment	-	-	-	-	3	-	-	-	3
At 31st December 2004	-	10,950	103,185	72,649	30,869	10,157	58,236	70,913	356,959
<b>Accumulated depreciation</b>									
At 1st January 2004	-	-	11,410	19,598	15,477	23,188	39,464	-	109,137
Charge for the year	-	-	1,365	3,244	4,128	3,076	2,784	-	14,597
Disposal	-	-	-	(140)	(1,685)	(237)	(4,084)	-	(6,146)
Disposal of subsidiaries (note 29(d))	-	-	-	(9,498)	-	(20,229)	(1,330)	-	(31,057)
Exchange adjustment	-	-	-	-	2	-	-	-	2
At 31st December 2004	-	-	12,775	13,204	17,922	5,798	36,834	-	86,533
Net book value									
At 31st December 2004	-	10,950	90,410	59,445	12,947	4,359	21,402	70,913	270,426
At 31st December 2003	5,700	10,950	86,075	44,866	10,452	17,480	16,631	36,452	228,606

The analysis of the cost or valuation at 31st December 2004 of the above assets is as follows:

	Investment properties		Land and buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction- in-progress	Total
	Long-term leases in Hong Kong	Long-term leases outside Hong Kong	Long-term leases in Hong Kong	Medium-term leases outside Hong Kong					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At cost	-	-	6,544	72,649	30,869	10,157	58,236	70,913	249,368
At professional valuation									
- 1994	-	-	96,641	-	-	-	-	-	96,641
- 2004	-	10,950	-	-	-	-	-	-	10,950
	-	10,950	103,185	72,649	30,869	10,157	58,236	70,913	356,959

Investment properties were revalued at 31st December 2004 on the basis of their open market values by Chung, Chan & Associates, an independent firm of chartered surveyors.

The carrying amount of the land and buildings in Hong Kong under long-term leases would have been HK\$38,629,672 (2003: HK\$40,374,952) had they been stated at cost less accumulated depreciation.

At 31st December 2004, the net book value of land and buildings pledged as security for the Group's short-term bank loans amounted to HK\$108,546,376 (2003: HK\$102,196,917).

The Group's interest in investment properties and land and buildings at net book values are analysed as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
In Hong Kong, held on		
Leases over 50 years	<u>90,410</u>	<u>91,775</u>
Outside Hong Kong, held on		
Leases over 50 years	10,950	10,950
Leases between 10 to 50 years	<u>59,445</u>	<u>44,866</u>
	<u>70,395</u>	<u>55,816</u>

**(b) Company**

	<b>Motor vehicles</b> <i>HK\$'000</i>
Cost	
At 1st January 2004 and at 31st December 2004	----- 442
Accumulated depreciation	
At 1st January 2004	110
Charge for the year	----- 89
At 31st December 2004	----- 199
Net book value	
At 31st December 2004	<u>243</u>
At 31st December 2003	<u>332</u>

## 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	33,772	33,691
Loans to subsidiaries	1,076,954	1,042,064
Less: accumulated impairment losses	(251,337)	(243,101)
	<u>859,389</u>	<u>832,654</u>

Except for a loan to First Shanghai Securities Limited of HK\$70 million which is interest bearing at prime rate plus 1% the above loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the principal subsidiaries at 31st December 2004 (see note (a) below):

Name	Place of incorporation/ establishment <i>(see note (b) and (c) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
<b>Shares held directly:</b>					
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares of HK\$1 each	100%	100%	Property investment
First Shanghai Management Services Limited	Hong Kong	1,200,000 ordinary shares of HK\$1 each	100%	100%	Agency, management and secretarial services
First Shanghai Nominees Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Nominee services
First Shanghai Direct Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding
First Shanghai Investment Management Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Financial advisory
* First Shanghai Finance Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Money lending
* First Shanghai Financial Holding Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
* UAT Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment holding
* P.I. Investments Australia Pty. Limited	Australia	2,000,000 ordinary shares of A\$1 each	100%	100%	Share investment

Name	Place of incorporation/ establishment <i>(see note (b) and (c) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
<b>Shares/Investments held indirectly:</b>					
First Shanghai Capital Limited	Hong Kong	12,000,000 ordinary shares of HK\$1 each	100%	100%	Corporate Finance
First Shanghai Securities Limited	Hong Kong	65,000,000 ordinary shares of HK\$1 each	100%	100%	Stockbroking
CVIC International Container Transportation Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Investment Holding
* First Information Technology Limited	British Virgin Islands	10 ordinary shares of US\$1 each	78.2%	100%	Investment holding
* First Shanghai Hygienic Products Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment Holding
* Golad Resources Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment Holding
* Shanghai Zhong Chuang International Container Storage & Transportation Company Limited	Chinese Mainland	US\$10,457,447	54%	54%	Container transportation and freight forwarding
* Atlas Securities Pty. Limited	Australia	2 ordinary shares of A\$1 each	100%	100%	Securities investment
* Leading Business Limited	British Virgin Islands	1,450,000 ordinary shares of US\$1 each	100%	100%	Property investment
China Assets Investment Management Limited	Hong Kong	2,000 ordinary shares of HK\$1 each	65.5%	65.5%	Management and investment advisory services
* Public Holdings (Australia) Limited (Listed in Sydney, Australia)	Australia	14,979,000 ordinary shares of A\$0.125 each	78.6%	78.6%	Securities investment
* P.H.A Investments Pty. Limited	Australia	60,000 ordinary shares of A\$2 each	78.6%	78.6%	Property investment

Name	Place of incorporation/ establishment <i>(see note (b) and (c) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
* P.H.A Trading Pty. Limited	Australia	2 ordinary shares of A\$0.5 each	78.6%	78.6%	Securities investment
First Shanghai Futures Limited	Hong Kong	8,000,000 ordinary shares of HK\$1 each	100%	100%	Futures broking
China C&Y International Holdings Limited	Cayman Islands	160,000 ordinary shares of US\$1 each	100%	100%	Investment Holding
* First Shanghai Fund Management Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Fund management
* CT Prime Assets Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Securities Investment
* First Shanghai Venture Capital Management Limited	Chinese Mainland	HK\$1,000,000	100%	100%	Venture capital & management
* BonVision International Consulting Limited	Chinese Mainland	HK\$1,000,000	100%	100%	Financial Consultancy
* Bonvision Technology (Shanghai) Limited	Chinese Mainland	US\$200,000	100%	100%	Technology consultancy
* Fu Hai Digital Science & Technology (Shanghai) Company Limited	Chinese Mainland	US\$750,000	100%	100%	Property development
* Kunshan Traders Park Hotel Company Limited	Chinese Mainland	US\$12,000,000	65%	65%	Hotel development
* Crimson Pharmatech (Shanghai) Company Limited	Chinese Mainland	US\$1,400,000	51%	51%	Pharmaceutical Services
* Shanghai Transvision Network Application Services Company Limited	Chinese Mainland	US\$1,800,000	100%	100%	Investment Holding
* Shanghai Yi Hang Logistic Network Management Limited	Chinese Mainland	RMB2,000,000	73.39%	73.39%	Logistics services

Name	Place of incorporation/ establishment <i>(see note (b) and (c) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
Zhejiang Shaoxing Betung Instrument Company Limited <i>(see note 15(c))</i>	Chinese Mainland	RMB61,950,000	–	73%	Sale of motor vehicles meters and components
Zhejiang Shaohong Instrument Company Limited <i>(see note 15(c))</i>	Chinese Mainland	RMB2,332,621	–	73%	Sale of motor vehicles meters and components
* Changchun FAW Siluan Betung Instrument Company Limited	Chinese Mainland	RMB7,700,000	55%	55%	Manufacture of autoparts
* Yongzhou Chang Yi Car Electronic Company Limited	Chinese Mainland	RMB9,400,000	51%	–	Manufacture of autoparts
GTI Financial Information Limited (“GTI”) <i>(see note (d) below)</i>	Hong Kong	279,999,999 ordinary shares of HK\$0.1 each	78.21%	–	Investment holding
* Shanghai Huan Ya Insurance Agency Company Limited (“Huan Ya”) <i>(see note (e) below)</i>	Chinese Mainland	RMB20,000,000	62%	–	Insurance broker
* Draco Equity Investment Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Securities Investment

\* The financial statements of these subsidiaries are not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 23% (2003: 21%) of the Group’s net assets.

*Notes:*

- (a) The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.
- (b) The subsidiaries operate principally in their places of incorporation.
- (c) All the subsidiaries established in Chinese Mainland are joint ventures.

- (d) As at 31st December 2003, GTI was a jointly controlled entity of the Group. In July 2004, the Group acquired a further 18.5% in GTI and the company then became a subsidiary of the Group.
- (e) Huan Ya was established as an equity joint venture in the Chinese Mainland in March 2002 for a term of 20 years. As at 31st December 2003, Huan Ya was a jointly controlled entity of the Group. In January 2004, the Group acquired a further 22% in Huan Ya and the company then became a subsidiary of the Group.

## 15. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	370,269	302,059
Goodwill on acquisition of associated companies less amortisation	529	–
	<u>370,798</u>	<u>302,059</u>
Investments at cost:		
Shares listed in Hong Kong	190,168	190,168
Unlisted	21,636	–
	<u>211,804</u>	<u>190,168</u>
Market value of listed shares	<u>204,803</u>	<u>264,419</u>

The following is a list of associated companies as at 31st December 2004:

Name	Place of incorporation	Particulars of issued shares/ registered capital	Effective interests held indirectly		Principal Activities
			2004	2003	
RBI Holdings Limited ("RBI") (see notes (a) and (b) below)	Bermuda	371,712,782 ordinary shares of HK\$0.1 each	19.92%	20.16%	Manufacture of toys
China Assets (Holdings) Limited ("China Assets") (see notes (a) and (b) below)	Hong Kong	74,383,160 ordinary shares of US\$0.1 each	33.83%	33.83%	Investment Holding
Zhejiang Shaoxing Betung Instrument Company Limited ("Shaoxing Betung") (see notes (c) below)	Chinese Mainland	RMB61,950,000	30%	–	Sales of motor vehicle meters and components
Zhejiang Shaohong Instrument Company Limited ("Shaohong") (see notes (c) below)	Chinese Mainland	RMB2,332,621	30%	–	Sales of motor vehicle meters and components



Note:

- (a) RBI and China Assets are companies listed on The Stock Exchange of Hong Kong Limited.
- (b) Both RBI and China Assets operate principally in Hong Kong.
- (c) As at 31st December 2003, Shaoxing Betung and Shaohong are subsidiaries of the Group. In December 2004, the Group sold partial interest in these two subsidiaries at a total consideration of HK\$37,909,350 and recorded a gain on disposal of approximately HK\$4,190,422 in the profit and loss account. Shaoxing Betung and Shaohong then became associated companies of the Group.

Additional information in respect of the Group's major associated companies is given as follows:

### RBI

For the year ended 31st December 2004

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit and loss account		
Turnover	583,085	573,705
Profit before taxation	<u>60,033</u>	<u>99,630</u>
Balance sheet		
Non-current assets	343,673	286,370
Current assets	324,442	355,325
Current liabilities	(72,717)	(74,837)
Non-current liabilities	<u>(8,621)</u>	<u>(4,216)</u>
Net assets	<u>586,777</u>	<u>562,642</u>
Group's share of net assets	<u>115,490</u>	<u>113,276</u>
Group's share of profit before taxation	<u>11,959</u>	<u>19,976</u>
Group's share of taxation	<u>1,220</u>	<u>2,720</u>

## China Assets

For the year ended 31st December 2004

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit and loss account		
Turnover	7,291	2,460
Profit before taxation	<u>175,456</u>	<u>85,609</u>
Balance sheet		
Non-current assets	383,173	472,657
Current assets	500,718	240,996
Current liabilities	<u>(1,903)</u>	<u>(2,225)</u>
Net assets	<u>881,988</u>	<u>711,428</u>
Group's share of net assets	<u>245,495</u>	<u>188,783</u>
Group's share of profit before taxation	<u>56,831</u>	<u>22,541</u>
Group's share of taxation	<u>139</u>	<u>1,604</u>

## 16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	<b>Group</b>		<b>Company</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Share of net assets	352,615	334,007	–	–
Unlisted investments at cost	–	–	124,171	112,378
Goodwill on acquisition of jointly controlled entities less amortisation	<u>(4,225)</u>	<u>(5,367)</u>	<u>–</u>	<u>–</u>
	<u>348,390</u>	<u>328,640</u>	<u>124,171</u>	<u>112,378</u>

The following is a list of the principal jointly controlled entities as at 31st December 2004:

Name	Place of incorporation/ establishment and operation	Principal activities	Effective interest in ownership/voting power/profit sharing	
			2004	2003
Goodbaby Bairuikang Hygienic Products Company Limited (“Goodbaby Bairuikang”) <i>(see note (a) below)</i>	Chinese Mainland	Production of diapers and related hygienic products	50%	50%
Geoby International Holdings Limited (“Geoby”) <i>(see note (b) below)</i>	Cayman Islands	Investment holding	49.5%	49.5%
Shanghai Zhangjiang Information Properties Company Limited (“Zhangjiang”) <i>(see note (c) below)</i>	Chinese Mainland	Property development	50%	50%
GTI Financial Information Limited (“GTI”) <i>(see note 14(d))</i>	Hong Kong	Investment holding	–	59.71%
Shanghai Huan Ya Insurance Agency Company Limited (“Huan Ya”) <i>(see note 14(e))</i>	Chinese Mainland	Insurance agency	–	40%

*Note:*

- (a) Goodbaby Bairuikang was established as an equity joint venture in the Chinese Mainland in December 1997 for a term of 50 years.
- (b) Geoby is an investment holding company. Its main subsidiary is Goodbaby Child Products Company Limited (“Goodbaby”) which engaged in the production of baby and infant items.
- (c) Zhangjiang was established as an equity joint venture in the Chinese Mainland in October 2002 for a term of 50 years.

Additional information in respect of the Group's major jointly controlled entity is given as follows:

**Geoby**

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Profit and loss account		
Turnover	1,872,760	1,392,991
Profit before taxation	<u>60,947</u>	<u>88,531</u>
Balance sheet		
Non-current assets	578,497	536,059
Current assets	1,173,164	739,610
Current liabilities	(1,141,419)	(731,712)
Non-current liabilities	<u>(13,965)</u>	<u>–</u>
Net assets	<u>596,277</u>	<u>543,957</u>
Group's share of net assets	<u>297,433</u>	<u>269,177</u>
Group's share of profit before taxation	<u>30,169</u>	<u>42,897</u>
Group's share of taxation	<u>1,441</u>	<u>4,888</u>

**17. INVESTMENT SECURITIES**

		<b>Group</b>		<b>Company</b>	
		<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Listed shares – overseas	(a)	13,223	17,909	–	–
Unlisted investment in fund					
– quoted in Hong Kong	(b)	15,406	15,406	–	–
Unlisted investments	(c)	<u>60,842</u>	<u>65,785</u>	<u>56,251</u>	<u>59,441</u>
		<u>89,471</u>	<u>99,100</u>	<u>56,251</u>	<u>59,441</u>

**(a) Listed shares – overseas**

	<b>Group</b>	
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Listed shares – overseas, at cost	<u>13,223</u>	<u>17,909</u>
Market value	<u>13,785</u>	<u>19,110</u>

## (b) Unlisted investment in fund – quoted in Hong Kong

	Group	
	2004 HK\$'000	2003 HK\$'000
Quoted value	<u>27,977</u>	<u>21,352</u>

## (c) Unlisted investments

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Shares, bonds and debenture, at cost	47,078	49,958	6,704	7,831
Less: accumulated impairment losses	<u>(35,783)</u>	<u>(35,783)</u>	<u>–</u>	<u>–</u>
	----- 11,295	----- 14,175	----- 6,704	----- 7,831
Loan	64,034	66,097	64,034	66,097
Less: accumulated impairment losses	<u>(14,487)</u>	<u>(14,487)</u>	<u>(14,487)</u>	<u>(14,487)</u>
	----- 49,547	----- 51,610	----- 49,547	----- 51,610
	<u>60,842</u>	<u>65,785</u>	<u>56,251</u>	<u>59,441</u>

## 18. LOANS RECEIVABLE

The loans receivable represents loan to a third party, secured, bears interest at 5% per annum and are repayable after one year from 31 December 2004. The Group has a plan to convert the loans receivable into equity interests of the borrower.

## 19. INVENTORIES

	Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	1,705	5,232
Work-in-progress	57	2,918
Finished goods	<u>4,126</u>	<u>48,924</u>
	<u>5,888</u>	<u>57,074</u>

At 31st December 2004, the carrying amount of inventories that are carried at net realisable value amounted to HK\$4,126,238 (2003: HK\$48,924,268).

## 20. OTHER INVESTMENTS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Equity securities, at market value				
Listed shares				
– Overseas	11	9,243	–	–
– Hong Kong	2,414	–	–	–
	<u>2,425</u>	<u>9,243</u>	<u>–</u>	<u>–</u>
Unlisted – Hong Kong	–	15,150	–	15,150
Total	<u>2,425</u>	<u>24,393</u>	<u>–</u>	<u>15,150</u>

## 21. ACCOUNTS RECEIVABLE

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due from stockbrokers and Hong Kong Securities Clearing Company Limited	45,084	76,350	–	–
Trade receivables	71,857	137,552	–	–
Bills receivable	3,945	18,914	–	–
	<u>120,886</u>	<u>232,816</u>	<u>–</u>	<u>–</u>

*Note:*

The ageing analysis of the trade receivables and bills receivable is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	57,921	127,659
31 – 60 days	7,645	18,520
61 – 90 days	4,165	7,520
Over 90 days	6,071	2,767
	<u>75,802</u>	<u>156,466</u>

For securities business, trade receivables are on credit terms of two trading days. For the remaining business of the Group, trade receivables are on credit terms of 30 to 90 days.

## 22. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables				
Receivables from disposal of subsidiaries	37,909	–	–	–
Receivables from disposal other investments	–	19,500	–	19,500
Expenses paid on behalf of customers	6,984	7,397	–	–
Other receivables	22,038	17,832	1,202	1,483
	<u>66,931</u>	<u>44,729</u>	<u>1,202</u>	<u>20,983</u>
Prepayments and deposits	26,406	7,739	610	872
	<u>93,337</u>	<u>52,468</u>	<u>1,812</u>	<u>21,855</u>

## 23. SHORT-TERM BANK LOANS AND OVERDRAFTS, SECURED

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term bank loans, secured	66,981	146,308	50,000	50,000
Overdrafts	19,882	–	19,882	–
	<u>86,863</u>	<u>146,308</u>	<u>69,882</u>	<u>50,000</u>

## 24. ACCOUNTS PAYABLE

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to stockbrokers and dealers	311	133	–	–
Due to stockbroking clients	58,609	10,926	–	–
Trade payables	5,339	190,037	–	–
	<u>64,259</u>	<u>201,096</u>	<u>–</u>	<u>–</u>

*Note:*

The ageing analysis of the trade payables is as follows:

	<b>Group</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	4,834	169,850
31 – 60 days	409	12,166
61 – 90 days	51	6,054
Over 90 days	45	1,967
	<u>5,339</u>	<u>190,037</u>

## 25. SHARE CAPITAL AND SHARE OPTIONS

	<b>Ordinary shares of HK\$0.2 each</b>			
	<b>2004</b>		<b>2003</b>	
	<i>Number of shares'000</i>	<i>HK\$'000</i>	<i>Number of shares'000</i>	<i>HK\$'000</i>
<i>Authorised:</i>				
At 1st January and 31st December	<u>2,000,000</u>	<u>400,000</u>	<u>2,000,000</u>	<u>400,000</u>
<i>Issued and fully paid:</i>				
At 1st January	1,173,692	234,738	1,173,324	234,665
Exercise of share options	–	–	368	73
At 31st December	<u>1,173,692</u>	<u>234,738</u>	<u>1,173,692</u>	<u>234,738</u>

*Note:*

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the 'Scheme') to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff. Under the terms of the Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at date of approval of the Scheme by the Shareholders in Annual General Meeting.



Movements in the number of share options outstanding during the year are as follows:

	Number of options	
	2004 '000	2003 '000
At the beginning of the year	56,614	56,982
Exercised	—	(368)
At the end of the year	<u>56,614</u>	<u>56,614</u>
Options vested at 31st December	<u>56,614</u>	<u>56,614</u>

Share options outstanding at the end of the year have the following terms:

Expiry date	Exercise price HK\$	Number of options	
		2004	2003
9th February 2005	0.453	4,938,492	4,938,492
7th October 2005	0.342	7,338,100	7,338,100
15th July 2006	0.318	11,839,444	11,839,444
12th November 2007	0.816	16,950,000	16,950,000
15th July 2008	0.283	15,548,000	15,548,000
		<u>56,614,036</u>	<u>56,614,036</u>

## 26. OTHER RESERVES

Group	Share premium HK\$'000	* Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1st January 2004	594,896	73,734	14,006	46,854	7,139	736,629
Share of post-acquisition reserves of an associated company and a jointly controlled entity	-	4,924	-	-	-	4,924
Reversal of negative goodwill against reserve upon disposal of subsidiaries	-	(2,910)	-	-	-	(2,910)
Exchanges differences on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	-	-	-	-	2,248	2,248
Transfer from retained profits	-	346	-	-	-	346
At 31st December 2004	<u>594,896</u>	<u>76,094</u>	<u>14,006</u>	<u>46,854</u>	<u>9,387</u>	<u>741,237</u>
Company and its subsidiaries	594,896	48,028	14,006	46,854	5,764	709,548
Associated companies	-	27,871	-	-	1,239	29,110
Jointly controlled entities	-	195	-	-	2,384	2,579
At 31st December 2004	<u>594,896</u>	<u>76,094</u>	<u>14,006</u>	<u>46,854</u>	<u>9,387</u>	<u>741,237</u>

\* Capital reserve mainly includes goodwill/negative goodwill arising on acquisition of subsidiaries, associated companies and jointly controlled entities by the Company and its subsidiaries and statutory reserve. As stipulated by regulations in Chinese Mainland, the Company's subsidiaries established and operated in Chinese Mainland are required to appropriate a portion of their after-tax (after offsetting prior year losses) to a general reserve fund and an enterprise expansion fund, at rates as determined by their respective boards of directors. The general reserve fund can be utilised to offset prior year losses or be utilised for the issuance of bonus shares, whilst the enterprise expansion fund can be utilised for the development of business operations. For the year ended 31st December 2004, a total amount of HK\$346,000 (2003: HK\$559,000) was transferred from retained profits to statutory reserve.

	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Total HK\$'000
At 1st January 2003	594,823	64,162	14,006	46,854	(1,160)	718,685
Premium on shares issued net of expenses	73	-	-	-	-	73
Share of post-acquisition reserves of an associated company and a jointly controlled entity	-	-	-	-	19	19
Reversal of goodwill against reserve upon disposal of an associated company	-	9,013	-	-	-	9,013
Exchanges differences on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	-	-	-	-	8,280	8,280
Transfer from retained profits	-	559	-	-	-	559
At 31st December 2003	<u>594,896</u>	<u>73,734</u>	<u>14,006</u>	<u>46,854</u>	<u>7,139</u>	<u>736,629</u>
Company and its subsidiaries	594,896	50,575	14,006	46,854	3,516	709,847
Associated companies	-	23,046	-	-	1,239	24,285
Jointly controlled entities	-	113	-	-	2,384	2,497
At 31st December 2003	<u>594,896</u>	<u>73,734</u>	<u>14,006</u>	<u>46,854</u>	<u>7,139</u>	<u>736,629</u>

Company	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 1st January 2004 and 31st December 2004	<u>594,896</u>	<u>2,104</u>	<u>14,006</u>	<u>611,006</u>
At 1st January 2003	594,823	2,104	14,006	610,933
Premium on shares issued net of expenses	73	-	-	73
At 31st December 2003	<u>594,896</u>	<u>2,104</u>	<u>14,006</u>	<u>611,006</u>

## 27. RETAINED PROFITS

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	288,430	206,902	32,626	55,231
Transfer to capital reserve	(346)	(559)	–	–
Profit/(loss) for the year	80,352	93,820	(13,408)	(10,872)
Dividend paid	(14,084)	(11,733)	(14,084)	(11,733)
	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>
At 31st December	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>
Representing:				
Proposed final dividend	11,737	14,084	–	14,084
Other	342,615	274,346	5,134	18,542
	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>
At 31st December	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>
Company and subsidiaries	67,732	97,178	5,134	32,626
Associated companies	133,017	77,390	–	–
Jointly controlled entities	153,603	113,862	–	–
	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>
At 31st December	<u>354,352</u>	<u>288,430</u>	<u>5,134</u>	<u>32,626</u>

## 28. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movement on the deferred tax liabilities represented accelerated tax depreciation allowances is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
At 1st January	1,332	1,108
Exchange differences	–	182
(Credited)/charged to profit and loss account ( <i>Note 6(a)</i> )	(275)	42
	<u>1,057</u>	<u>1,332</u>
At 31st December	<u>1,057</u>	<u>1,332</u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$202,581,000 (2003: HK\$194,726,000) to carry forward against future taxable income. This tax loss has no expiry date.

## 29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

## (a) Reconciliation of profit before taxation to net cash inflow/(outflow) used in operations

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	94,673	107,510
Share of net profit of associated companies and jointly controlled entities	(82,612)	(85,490)
Interest income	(2,427)	(3,528)
Dividend income from listed investments	(497)	(787)
Interest expenses on bank loans and overdrafts	4,709	1,882
Loss on disposal of fixed assets	956	36
Gain on disposal of certain interest in an associated company	–	(6,002)
Gain on disposal of subsidiaries	(4,241)	–
Gain on disposal of investment securities	(591)	(1,406)
Depreciation	14,597	8,488
Amortisation of trading rights and patent	683	164
Amortisation of goodwill	21,024	19,809
Amortisation of negative goodwill	(5,521)	(3,178)
	<hr/>	<hr/>
Operating profit before working capital changes	40,753	37,498
Increase in inventories	(19,320)	(1,103)
Decrease/(increase) in accounts receivable	45,900	(140,591)
Decrease/(increase) in other receivable, prepayments and deposits	8,254	(18,923)
Increase in loans and advances	(30,681)	(56,216)
Decrease/(increase) in other investments	21,969	(1,895)
(Decrease)/increase in accounts payable	(50,439)	139,292
(Decrease)/increase in accruals	(4,969)	21,369
	<hr/>	<hr/>
Net cash inflow/(outflow) used in operations	<u>11,467</u>	<u>(20,569)</u>

## (b) Analysis of changes in financing

	Share capital including premium		Bank loans	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1st January	829,634	829,488	146,308	2,835
Issue of shares	–	146	–	–
New short-term loans	–	–	17,919	120,000
Repayment of short-term loans	–	–	(70,000)	–
Acquisition of subsidiaries	–	–	–	23,473
Disposal of subsidiaries (note 29(d))	–	–	(27,246)	–
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December	<u>829,634</u>	<u>829,634</u>	<u>66,981</u>	<u>146,308</u>

## (c) Acquisition of subsidiaries

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net assets acquired:		
Fixed assets	2,869	43,481
Intangible assets	1,299	136
Investments securities	–	6,344
Accounts receivable	1,973	56,856
Other receivable and prepayments	27,972	5,653
Inventories	115	54,701
Bank balances and cash	3,064	14,458
Trade payables	(13)	(54,735)
Other payables and accruals	(16,831)	(13,225)
Taxation	–	(2,193)
Bank loans	–	(23,473)
Minority interests	(7,327)	(21,180)
	<u>13,121</u>	<u>66,823</u>
Less: Interest originally held by the Group		
An associated company	–	(966)
A jointly controlled entity	(6,223)	(28,143)
	<u>6,898</u>	<u>37,714</u>
Goodwill/(negative goodwill)	<u>7,630</u>	<u>(12,414)</u>
	<u><u>14,528</u></u>	<u><u>25,300</u></u>
Satisfied by:		
Cash	<u><u>14,528</u></u>	<u><u>25,300</u></u>
Analysis of the net cash outflow in respect of the acquisition of subsidiaries:		
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank balances and cash acquired	3,064	14,458
Cash consideration	(14,528)	(25,300)
Net cash outflow in respect of the acquisition of subsidiaries	<u><u>(11,464)</u></u>	<u><u>(10,842)</u></u>

## (d) Disposal of subsidiaries

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Net assets disposed of:		
Fixed assets	30,269	–
Investment securities	4,093	–
Inventories	70,621	–
Accounts receivable	79,558	–
Other receivable and prepayments	5,205	–
Bank balances and cash	11,670	–
Accounts payable	(86,411)	–
Accruals	(10,978)	–
Taxation	(1,429)	–
Bank loans	(27,246)	–
Minority interests	(13,976)	–
	<u>61,376</u>	<u>–</u>
Realisation of goodwill	(6,568)	–
Investment in associated companies	(21,089)	–
Gain on disposal	4,241	–
	<u>37,960</u>	<u>–</u>
Satisfied by		
Cash consideration (included in other receivable as at 31st December 2004)	37,909	–
Cash consideration received	51	–
	<u>37,960</u>	<u>–</u>
Analysis of the net cash outflow in respect of the disposal of subsidiaries:		
	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Bank balances and cash disposed	(11,670)	–
Cash consideration	51	–
Net cash outflow in respect of the disposal of subsidiaries	<u>(11,619)</u>	<u>–</u>

**30. BANK BALANCES AND BANKING FACILITIES**

- (a) Fixed deposits of HK\$15 million (2003: HK\$15 million) as well as properties of the Group with an aggregate net book value of HK\$108,546,376 (2003: HK\$102,196,917) as at 31st December 2004 were pledged as securities against bank loans and general banking facilities amounting to HK\$145 million (2003: HK\$129 million) granted to the Group. At the balance sheet date, HK\$84,033,377 of such facilities was utilised (2003: HK\$54,717,000).
- (b) Included in the bank balances and cash of the Group are Renminbi deposits and cash in the Chinese Mainland of HK\$55,193,264 (2003: HK\$70,736,612). Renminbi is not a freely convertible currency.

**31. CONTINGENT LIABILITIES**

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantee for bank facilities of a subsidiary	—	—	50,000	50,000

**32. COMMITMENTS****(a) Capital commitments for land and buildings**

	Group	
	2004	2003
	HK\$'000	HK\$'000
Contracted but not provided for	43,844	11,568
The Group's share of capital commitments of a jointly controlled entity and an associated company not included in the above is as follows:		
Contracted but not provided for	3,526	25,050

The Company did not have any material capital commitments.



**(b) Commitments under operating leases**

The Group and the Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Group</b>		<b>Company</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Not later one year	3,440	3,791	–	–
Later than one year but not later than five years	4,958	4,613	–	–
More than five years	189	–	–	–
	<u>8,587</u>	<u>8,404</u>	<u>–</u>	<u>–</u>

**33. RELATED PARTY TRANSACTIONS**

Mr. Lao Yuan Yi, Mr. Yeung Wai Kin and Mr. Wang Jun Yan are Directors of China Assets Investment Management Limited (“CAIML”), a subsidiary of the Company and China Assets (Holdings) Limited (“CAHL”), an associated company of the Company.

During the year, CAIML received a management fee of HK\$8,009,001 (2003: HK\$8,232,962) from CAHL, under the management agreement signed between CAIML and CAHL.

**34. APPROVAL OF ACCOUNTS**

The accounts were approved by the board of directors on 18th April 2005.

## CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited	
		Six months ended 30th June	
		2005	2004
		HK\$'000	HK\$'000
			(As restated)
Sales	4	362,417	299,689
Cost of sales		(311,238)	(190,779)
Gross profit		51,179	108,910
Other revenue		2,007	2,071
Administrative expenses		(59,071)	(78,274)
Other operating expenses		(17,596)	(18,016)
Other operating income		24,634	5,085
Operating profit	4 and 5	1,153	19,776
Finance costs		(2,111)	(3,242)
Share of profits less losses of			
Associated companies		(6,980)	1,426
Jointly controlled entities		25,697	14,658
Profit before taxation		17,759	32,618
Taxation	7	(2,103)	(7,030)
Profit for the period		<u>15,656</u>	<u>25,588</u>
Profit attributable to:			
Shareholders of the Company		14,936	24,171
Minority interest		720	1,417
		<u>15,656</u>	<u>25,588</u>
Earnings per share for profit attributable			
to shareholders of the Company			
during the period			
– basic	8	<u>HK1.27 cents</u>	<u>HK2.06 cents</u>
– diluted	8	<u>HK1.25 cents</u>	<u>HK2.02 cents</u>

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	Unaudited As at 30th June 2005 HK\$'000	Restated As at 31st December 2004 HK\$'000
<b>Non-current assets</b>			
Intangible assets	9	4,434	11,887
Property, plant and equipment	9	202,836	141,260
Investment properties	9	13,100	10,950
Leasehold land and land use rights		88,793	89,177
Investments in associated companies		351,971	370,798
Investments in jointly controlled entities		380,004	348,390
Investment securities		–	89,471
Available-for-sale financial assets		36,032	–
Loans receivable	10	22,888	10,028
		<u>1,100,058</u>	<u>1,071,961</u>
<b>Current assets</b>			
Inventories		8,204	5,888
Other investments		–	2,425
Loans and advances		120,510	112,779
Accounts receivables	11	215,953	120,886
Other receivables, prepayments and deposits		83,253	93,337
Financial assets at fair value through profit or loss		93,271	–
Pledged bank deposits		15,000	15,000
Bank balances and cash		132,299	186,972
		<u>668,490</u>	<u>537,287</u>
<b>Current liabilities</b>			
Trade and other payables	12	230,472	130,032
Taxation payable		5,384	3,202
Short-term bank loans			
Secured		66,981	66,981
Unsecured		943	–
Bank overdrafts, secured		24,042	19,882
		<u>327,822</u>	<u>220,097</u>
<b>Net current assets</b>		<u>340,668</u>	<u>317,190</u>
<b>Total assets less current liabilities</b>		1,440,726	1,389,151
<b>Non-current liabilities</b>			
Deferred tax liabilities		963	1,057
Long-term bank loans, secured		59,434	–
<b>Net assets</b>		<u>1,380,329</u>	<u>1,388,094</u>
<b>Equity attributable to the Company's shareholders</b>			
Share capital	13	234,738	234,738
Reserves		1,058,359	1,066,550
Minority interest		87,232	86,806
<b>Total equity</b>		<u>1,380,329</u>	<u>1,388,094</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(40,640)	(62,320)
Net cash used in investing activities	(68,875)	(22,898)
Net cash inflow from financing activities	52,882	22,799
Net decrease in cash and bank overdrafts	(56,633)	(62,419)
Cash and bank overdrafts at 1st January	182,090	325,433
Exchange losses on cash and bank overdrafts	(2,200)	(2,372)
Cash and bank overdrafts at 30th June	<u>123,257</u>	<u>260,642</u>
Analysis of balances of cash and bank overdrafts		
Cash at bank and in hand	132,299	245,642
Short-term bank deposits	15,000	15,000
Cash and cash equivalents	147,299	260,642
Bank overdrafts	(24,042)	-
	<u>123,257</u>	<u>260,642</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited									
	Attributable to shareholders of the Company									
	Share capital	Share premium	Capital reserve	Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings	Minority interest	Total
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 31st December 2004, as previously reported as equity (audited)	234,738	594,896	76,094	14,006	46,854	-	9,387	354,352	-	1,330,327
Balance at 31st December 2004, as previously separately reported as minority interest (audited)	-	-	-	-	-	-	-	-	86,806	86,806
Prior period adjustment for the adoption of HKAS 17 (note 2(a)(i))	-	-	-	-	(35,347)	-	-	6,308	-	(29,039)
Balance at 31st December 2004, as restated	234,738	594,896	76,094	14,006	11,507	-	9,387	360,660	86,806	1,388,094
Opening adjustment for the adoption of HKAS 39	-	-	-	-	-	32,392	-	(38,103)	-	(5,711)
Opening adjustment for the adoption of HKAS 40	-	-	-	-	21	-	-	(21)	-	-
Opening adjustment for the adoption of HKFRS 3	-	-	-	-	-	-	-	12,671	-	12,671
<b>Balance at 1st January 2005, as restated</b>	<b>234,738</b>	<b>594,896</b>	<b>76,094</b>	<b>14,006</b>	<b>11,528</b>	<b>32,392</b>	<b>9,387</b>	<b>335,207</b>	<b>86,806</b>	<b>1,395,054</b>
Transfer from retained profits	-	-	89	-	-	-	-	(89)	-	-
Share of post-acquisition reserves of associated companies	-	-	(6,662)	-	-	-	-	-	-	(6,662)
Fair value losses of available-for-sale financial assets	-	-	-	-	-	(9,769)	-	-	-	(9,769)
Currency translation differences	-	-	-	-	-	-	(1,919)	-	(294)	(2,213)
Profit for the period	-	-	-	-	-	-	-	14,936	720	15,656
2004 final dividend paid	-	-	-	-	-	-	-	(11,737)	-	(11,737)
<b>Balance at 30th June 2005</b>	<b>234,738</b>	<b>594,896</b>	<b>69,521</b>	<b>14,006</b>	<b>11,528</b>	<b>22,623</b>	<b>7,468</b>	<b>338,317</b>	<b>87,232</b>	<b>1,380,329</b>
Retained by:										
Company and subsidiaries	234,738	594,896	48,117	14,006	11,528	22,623	3,845	32,980	87,232	1,049,965
Associated companies	-	-	21,209	-	-	-	1,239	126,036	-	148,484
Jointly controlled entities	-	-	195	-	-	-	2,384	179,301	-	181,880
<b>Balance at 30th June 2005</b>	<b>234,738</b>	<b>594,896</b>	<b>69,521</b>	<b>14,006</b>	<b>11,528</b>	<b>22,623</b>	<b>7,468</b>	<b>338,317</b>	<b>87,232</b>	<b>1,380,329</b>

	Unaudited								Total HK\$'000
	Attributable to shareholders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Minority interest HK\$'000	
Balance at 1st January 2004, as previously reported as equity (audited)	234,738	594,896	73,734	14,006	46,854	7,139	288,430	-	1,259,797
Balance at 1st January 2004, as previously separately reported as minority interest (audited)	-	-	-	-	-	-	-	82,602	82,602
Prior year adjustment for the adoption of HKAS 17 (note 2(a)(i))	-	-	-	-	(35,347)	-	5,651	-	(29,696)
Balance at 1st January 2004, as restated	234,738	594,896	73,734	14,006	11,507	7,139	294,081	82,602	1,312,703
Acquisition of a subsidiary	-	-	-	-	-	-	-	7,328	7,328
Dividend paid to minority shareholders of subsidiary	-	-	-	-	-	-	-	(1,566)	(1,566)
Capital contributed to subsidiaries by its minority shareholders	-	-	-	-	-	-	-	11,767	11,767
Share of post-acquisition reserve of a subsidiary	-	-	85	-	-	-	-	-	85
Share of post-acquisition reserves of jointly controlled entities	-	-	39	-	-	-	-	-	39
Currency translation differences	-	-	-	-	-	(1,944)	-	(534)	(2,478)
Profit for the period	-	-	-	-	-	-	24,171	1,417	25,588
2003 final dividend paid	-	-	-	-	-	-	(14,084)	-	(14,084)
<b>Balance at 30th June 2004, as restated</b>	<b>234,738</b>	<b>594,896</b>	<b>73,858</b>	<b>14,006</b>	<b>11,507</b>	<b>5,195</b>	<b>304,168</b>	<b>101,014</b>	<b>1,339,382</b>
Retained by:									
Company and subsidiaries	234,738	594,896	50,660	14,006	11,507	1,239	97,397	101,014	1,105,457
Associated companies	-	-	23,046	-	-	2,908	78,816	-	104,770
Jointly controlled entities	-	-	152	-	-	1,048	127,955	-	129,155
<b>Balance at 30th June 2004 as restated</b>	<b>234,738</b>	<b>594,896</b>	<b>73,858</b>	<b>14,006</b>	<b>11,507</b>	<b>5,195</b>	<b>304,168</b>	<b>101,014</b>	<b>1,339,382</b>

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004, except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards (“HKFRS”) and HKAS (collectively referred to as the “New HKFRS”), which have become effective for accounting periods beginning on or after 1st January 2005 and have not been early adopted by the Group for the preparation of the 2004 annual financial statements.

### 2. CHANGES IN ACCOUNTING POLICIES

#### (a) Effect of adopting New HKFRS

In 2005, the Group adopted the New HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKFRS 2 did not result in substantial changes to the Group’s accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKFRS 2 had no material effect on the Group’s policies.

- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights are expensed in the condensed consolidated profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the condensed consolidated profit and loss account. In prior years, the leasehold land was accounted for at fair value or cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Following the adoption of HKASs 32 and 39, the financial assets have been classified into available-for-sale financial assets, financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Available-for-sale financial assets are measured at fair value and changes in fair value are recognised in the investment revaluation reserve. Loans and receivables are measured at amortised cost. The carrying amount of the asset is computed by discounting the future cash flows to the present value using the effective interest method.

The Group has adopted the transitional provisions of HKAS 39 as follows:

- redesignate all "investment securities" as "available-for-sale financial assets" and "loans and receivables", and "other investments" as "financial assets at fair value through profit or loss" at 1st January 2005;
- remeasure those financial assets or financial liabilities that should be measured at fair value and those that should be measured at amortised cost at 1st January 2005.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the condensed consolidated profit and loss account as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the condensed consolidated profit and loss account.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, goodwill was:

- Amortised on a straight line basis over its estimated useful economic life; and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;



- From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
  - HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
  - HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Hong Kong Statement of Standard Accounting Practice (“SSAP”) 24 “Accounting for investments in securities” to investments in securities for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1st January 2005.
  - HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1st January 2005, including the reclassification of any amount held in revaluation surplus for investment property.
  - HKFRS 2 – only retrospective application for all equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and
  - HKFRS 3 – prospectively after the adoption date.
- (i) The adoption of revised HKAS 17 resulted in a decrease in opening reserves at 1st January 2004 and 2005 by approximately HK\$29,696,000 and HK\$29,039,000 respectively.

- (ii) The effect of changes in accounting policies on the consolidated balance sheet are as follows:

	Effect of adopting				Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	
<b>At 30th June 2005</b>					
Decrease in property, plant and equipment	(88,793)	-	(13,100)	-	(101,893)
Increase in leasehold land and land use rights	88,793	-	-	-	88,793
Increase in investment properties	-	-	13,100	-	13,100
Increase in available-for-sale financial assets	-	27,214	-	-	27,214
Increase in loans receivable	-	11,915	-	-	11,915
Increase in financial assets at fair value through profit or loss	-	47,496	-	-	47,496
Decrease in investment securities	-	(82,767)	-	-	(82,767)
Decrease in other investments	-	(2,192)	-	-	(2,192)
Decrease in intangible assets	-	-	-	(6,913)	(6,913)
Increase in investments in jointly controlled entities	-	-	-	5,917	5,917
Increase/(decrease) in net assets	<u>-</u>	<u>1,666</u>	<u>-</u>	<u>(996)</u>	<u>670</u>
Increase in investment revaluation reserve	-	22,623	-	-	22,623
Decrease in retained earnings	-	(20,957)	-	(996)	(21,953)
Increase/(decrease) in equity	<u>-</u>	<u>1,666</u>	<u>-</u>	<u>(996)</u>	<u>670</u>

	Effect of adopting				Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	
<b>At 31st December 2004</b>					
Decrease in property, plant and equipment	(89,177)	-	-	-	(89,177)
Increase in leasehold land and land use rights	89,177	-	-	-	89,177
Increase in net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (iii) The effect of changes in accounting policies on the consolidated profit and loss are as follows:

	Effect of adopting				Total HK\$'000
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	
Six months ended 30th June 2004					
Decrease in administrative expenses	328	-	-	-	328
Increase in profit attributable to shareholders	<u>328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>328</u>
	Effect of adopting				
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	Total HK\$'000
Six months ended 30th June 2005					
Decrease in administrative expenses	328	-	-	-	328
Increase in other operating income	-	14,425	2,150	-	16,575
Increase in other operating expenses	-	-	-	(13,667)	(13,667)
Increase/(decrease) in profit attributable to shareholders	<u>328</u>	<u>14,425</u>	<u>2,150</u>	<u>(13,667)</u>	<u>3,236</u>

## (b) New Accounting Policies

The accounting policies used in the preparation of the condensed consolidated financial information for the six months ended 30th June 2005 are the same as those set out in note 1 to the 2004 annual financial statements except for the following:

### (I) Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

## (c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component of equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

*(II) Investment properties*

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognized as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognized in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

Changes in fair values are recognized in the profit and loss account.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognized in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognized in the profit and loss account.

(III) *Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/jointly controlled entity at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(IV) *Impairment of assets*

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(V) *Investments*

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and other investments.

(a) *Investment securities*

Investments securities are held for identified long term purpose and stated at cost less any accumulated impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheets date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognized as an expense in the profit and loss account. This impairment loss is written back to profit and loss account 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.

(b) Other investments

Other investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of other investments are recognised in the profit and loss account. Profits or losses on disposal of other investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within twelve months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in loans receivable (Note 10) and accounts receivables (Note 11) in the balance sheet.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss' category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognized in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(VI) *Accounts receivables*

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(VII) *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

*(VIII) Interest income*

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

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

Estimates and judgments used in preparing the financial statements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities included those related to estimated fair value of investments properties and financial instruments, impairment of assets and income taxes.

**4. SEGMENT INFORMATION**

The Group is principally engaged in securities trading and investment, corporate finance and stockbroking, container transportation and freight forwarding services, sales of motor vehicles meters and components, investment holding, property holding and management.

An analysis of the Group's turnover and contribution to operating profit for the period by business and geographical segments is as follows:

**Primary reporting format – business segments**

	Unaudited						Group
	Six months ended 30th June 2005						
	Securities trading and investment	Corporate finance and stockbroking	Container transportation and freight forwarding services	Sales of motor vehicles meters and components	Investment holding, property holding and management	Sales of child products	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales	<u>38,111</u>	<u>36,691</u>	<u>259,545</u>	<u>16,758</u>	<u>11,312</u>	<u>-</u>	<u>362,417</u>
Segment results	<u>15,719</u>	<u>11,104</u>	<u>(1,168)</u>	<u>(1,399)</u>	<u>(25,110)</u>	<u>-</u>	(854)
Other revenue							2,007
Finance costs							(2,111)
Share of profits less losses of							
- Associated companies	-	-	-	(2,393)	(6,585)	1,998	(6,980)
- Jointly controlled entities	-	-	-	-	157	25,540	25,697
Profit before taxation							17,759
Taxation							(2,103)
Profit for the period							<u>15,656</u>



	Unaudited						Group HK\$'000
	Six months ended 30th June 2004						
	Securities trading and investment HK\$'000	Corporate finance and stockbroking HK\$'000	Container transportation and freight forwarding services HK\$'000	Sales of motor vehicles meters and components HK\$'000	Investment holding, property holding and management HK\$'000	Sales of child products HK\$'000	
Sales	<u>40,750</u>	<u>55,293</u>	<u>22,466</u>	<u>171,009</u>	<u>10,171</u>	<u>-</u>	<u>299,689</u>
Segment results	<u>(4,045)</u>	<u>28,943</u>	<u>652</u>	<u>6,691</u>	<u>(14,536)</u>	<u>-</u>	<u>17,705</u>
Other revenue							2,071
Finance costs							(3,242)
Share of profits less losses of							
– Associated companies	-	-	-	-	(1,318)	2,744	1,426
– Jointly controlled entities	-	-	-	-	(2,714)	17,372	14,658
Profit before taxation							32,618
Taxation							(7,030)
Profit for the period							<u>25,588</u>

The segment assets and liabilities at 30th June 2005 and other information for the six months then ended are as follows:

	Unaudited						Group HK\$'000
	Securities trading and investment HK\$'000	Corporate finance and stockbroking HK\$'000	Container transportation and freight forwarding services HK\$'000	Sales of motor vehicles meters and components HK\$'000	Investment holding, property holding and management HK\$'000	Sales of child products HK\$'000	
<b>Balance sheet</b>							
Segment assets	97,475	190,565	270,085	19,636	458,812	-	1,036,573
Investments in associated companies	-	-	-	7,421	239,951	104,599	351,971
Investments in jointly controlled entities	-	-	-	-	37,282	342,722	380,004
Total assets							<u>1,768,548</u>
Segment liabilities	2,842	52,462	149,338	12,575	164,655	-	381,872
Taxation payable							5,384
Deferred tax liabilities							963
Total liabilities							<u>388,219</u>
<b>Other information</b>							
Capital expenditure	173	121	11,578	117	55,749	-	67,738
Depreciation	155	772	3,023	245	1,944	-	6,139
Amortisation charge	-	82	-	-	458	-	540

The segment assets and liabilities at 31st December 2004 and other information for the six months then ended are as follows:

	Securities trading and investment <i>HKS'000</i>	Corporate finance and stockbroking <i>HKS'000</i>	Container transportation And freight forwarding services <i>HKS'000</i>	Restated Sales of motor vehicles meters and components <i>HKS'000</i>	Investment holding, property holding and management <i>HKS'000</i>	Sales of child products <i>HKS'000</i>	Group <i>HKS'000</i> Restated
<b>Balance sheet</b>							
Segment assets	36,894	320,687	103,724	3,154	425,601	-	890,060
Investments in associated companies	-	-	-	9,813	245,495	115,490	370,798
Investments in jointly controlled entities	-	-	-	-	37,125	311,265	348,390
Total assets							<u>1,609,248</u>
Segment liabilities	880	139,046	22,599	1,203	53,167	-	216,895
Taxation payable							3,202
Deferred tax liabilities							<u>1,057</u>
Total liabilities							<u>221,154</u>
<b>Other information</b>							
Capital expenditure	391	2,158	2,377	1,781	28,377	-	35,084
Depreciation	38	604	2,534	2,124	1,706	-	7,006
Amortisation charge	-	82	-	(1,183)	10,079	(1,243)	7,735

### Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

- Hong Kong – securities trading and investment, corporate finance and stockbroking, investment holding, property holding and management
- Chinese Mainland – container transportation and freight forwarding services, sales of motor vehicles meters and components

	Unaudited Sales		Unaudited Segment results	
	Six months ended 30th June		Six months ended 30th June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(As restated)
Hong Kong	79,329	100,804	9,603	26,669
Chinese Mainland	282,990	198,805	(17,641)	(6,813)
Others	98	80	7,184	(2,151)
	<u>362,417</u>	<u>299,689</u>	(854)	17,705
Other revenue			<u>2,007</u>	<u>2,071</u>
Operating profit			<u>1,153</u>	<u>19,776</u>

There are no sales among the geographical segments.

	Unaudited As at 30th June 2005	Restated As at 31st December 2004
	HK\$'000	HK\$'000
<b>Total assets</b>		
Hong Kong	398,010	536,454
Chinese Mainland	597,274	318,035
Others	<u>41,289</u>	<u>35,571</u>
	1,036,573	890,060
Investments in associated companies	351,971	370,798
Investments in jointly controlled entities	<u>380,004</u>	<u>348,390</u>
	<u>1,768,548</u>	<u>1,609,248</u>

Total assets are allocated based on where the assets are located.

	Unaudited Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
<b>Capital expenditure</b>		
Hong Kong	1,337	408
Chinese Mainland	66,228	34,294
Others	<u>173</u>	<u>382</u>
	<u>67,738</u>	<u>35,084</u>

Capital expenditure is allocated based on where the assets are located.

## 5. OPERATING PROFIT

**Unaudited**  
**Six months ended 30th June**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>

Operating profit is stated after crediting and charging the following:

**Crediting:**

Gain on disposal of available-for-sale financial assets ( <i>Note a</i> )	1,415	–
Dividend income	660	–
Gain on disposal of property, plant and equipment	51	–
Fair value gain on financial assets at fair value through profit or loss	17,665	–
Fair value gain on revaluation of investment properties	2,150	–
Gain on disposal of partial interest in subsidiaries	–	164
Amortisation of negative goodwill	–	2,799
	<b>17,671</b>	<b>2,799</b>

**Charging:**

Depreciation	6,139	7,006
Amortisation of intangible assets	540	218
Amortisation of goodwill	–	10,316
Staff costs ( <i>Note 6</i> )	51,973	49,600
Impairment losses on goodwill	13,667	–
Fair value losses on financial assets at fair value through profit or loss	3,614	–
	<b>75,033</b>	<b>67,130</b>

*Note:*

- (a) The Group disposed of an equity interest of 1.465% in one of its available-for-sale financial assets for a consideration of HK\$1,415,000, and recorded a gain of HK\$1,415,000 for the six months ended 30th June 2005.

## 6. STAFF COSTS

Staff costs, including directors' remuneration, comprise:

**Unaudited**  
**Six months ended 30th June**

	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>

Wages, salaries and allowance	46,456	43,691
Medical and other benefits	1,915	3,104
Pension costs – defined contribution plans	3,602	2,615
Termination benefits	–	190
	<b>51,973</b>	<b>49,600</b>

## 7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the profit and loss account represents:

	<b>Unaudited</b>	
	<b>Six months ended 30th June</b>	
	<b>2005</b>	<b>2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(As restated)
Current taxation		
– Hong Kong profits tax	2,055	4,225
– Overseas taxation	142	2,977
Deferred taxation	(94)	(172)
	2,103	7,030
	2,103	7,030

Share of associated and jointly controlled companies taxation for the six months ended 30th June 2005 of approximately HK\$706,000 (30th June 2004: HK\$389,000) and approximately HK\$6,226,000 (30th June 2004: HK\$4,255,000), respectively, are included in the profit and loss account as the share of profits less losses of associated companies and jointly controlled entities.

## 8. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$14,936,000 (2004: as restated HK\$24,171,000). The basic earnings per share is based on the weighted average number of 1,173,691,705 (2004: 1,173,691,705) ordinary shares in issue during the period. The diluted earnings per share is based on 1,191,673,231 (2004: 1,196,155,054) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 17,981,526 (2004: 22,463,349) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 9. CAPITAL EXPENDITURE

	Unaudited					Investment properties HK\$'000
	Intangible assets			Total HK\$'000	Property, plant and equipment HK\$'000	
	Goodwill HK\$'000	Negative goodwill HK\$'000	Futures exchange trading rights and patent HK\$'000			
Net book amount as at 31st December 2004, as previously reported	16,660	(6,754)	1,981	11,887	259,476	10,950
Prior period adjustment for the adoption of HKAS 17	—	—	—	—	(118,216)	—
Net book amount as at 31st December 2004, as restated	16,660	(6,754)	1,981	11,887	141,260	10,950
Opening adjustment for the adoption of HKFRS 3	—	6,754	—	6,754	—	—
Net book amount as at 1st January 2005, as restated	16,660	—	1,981	18,641	141,260	10,950
Additions	—	—	—	—	67,738	—
Disposals	—	—	—	—	(9)	—
Amortisation/depreciation charges (Note 5)	—	—	(540)	(540)	(6,139)	—
Impairment losses (Note 5)	(13,667)	—	—	(13,667)	—	—
Exchange adjustment	—	—	—	—	(14)	—
Valuation increase during the period (Note 5)	—	—	—	—	—	2,150
Net book amount as at 30th June 2005	<u>2,993</u>	<u>—</u>	<u>1,441</u>	<u>4,434</u>	<u>202,836</u>	<u>13,100</u>

## 10. LOANS RECEIVABLE

Included in loans receivable are loans to a third party of approximately HK\$10,972,000 (2004: HK\$10,028,000). These loans are secured, bear interest ranging from 5% to 5.6% per annum and are payable after one year from 30th June 2005. The Group has a plan to convert the loans receivable into equity of the borrower.

## 11. ACCOUNTS RECEIVABLES

	<b>Unaudited</b> <b>As at 30th</b> <b>June 2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at 31st</b> <b>December 2004</b> <i>HK\$'000</i>
Due from stockbrokers and Hong Kong Securities Clearing Company Limited	9,475	45,084
Trade receivables	204,165	71,857
Bills receivables	2,313	3,945
	<u>215,953</u>	<u>120,886</u>

At 30th June 2005 and 31st December 2004, the ageing analysis of trade receivables and bills receivables is as follows:

	<b>Unaudited</b> <b>As at 30th</b> <b>June 2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at 31st</b> <b>December 2004</b> <i>HK\$'000</i>
0 – 30 days	126,903	57,921
31 – 60 days	51,199	7,645
61 – 90 days	21,448	4,165
Over 90 days	6,928	6,071
	<u>206,478</u>	<u>75,802</u>

For securities business, trade receivables are on credit terms of trading day plus two days. For the remaining business of the Group, trade receivables are mainly on credit terms of 30 to 90 days.

## 12. TRADE AND OTHER PAYABLES

	<b>Unaudited</b> <b>As at 30th</b> <b>June 2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at 31st</b> <b>December 2004</b> <i>HK\$'000</i>
Due to stockbrokers and dealers	35	311
Due to stockbroking clients	26,105	58,609
Trade payables	135,785	5,339
Accrual	68,547	65,773
	<u>230,472</u>	<u>130,032</u>

At 30th June 2005 and 31st December 2004, the ageing analysis of the trade payables is as follows:

	<b>Unaudited</b> <b>As at 30th</b> <b>June 2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at 31st</b> <b>December 2004</b> <i>HK\$'000</i>
0 – 30 days	75,497	4,834
31 – 60 days	45,904	409
61 – 90 days	13,178	51
Over 90 days	1,206	45
	<u>135,785</u>	<u>5,339</u>

### 13. SHARE CAPITAL

	<b>Unaudited</b> <b>As at 30th June 2005</b>		<b>Audited</b> <b>As at 31st December 2004</b>	
	<i>Number of</i> <i>shares</i>	<i>HK\$'000</i>	<i>Number of</i> <i>shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary share of HK\$0.2 each	<u>2,000,000,000</u>	<u>400,000</u>	<u>2,000,000,000</u>	<u>400,000</u>
Issued and fully paid:				
Ordinary share of HK\$0.2 each	<u>1,173,691,705</u>	<u>234,738</u>	<u>1,173,691,705</u>	<u>234,738</u>

### 14. COMMITMENTS

#### (a) Capital commitments for property, plant and equipment:

	<b>Unaudited</b> <b>As at</b> <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at</b> <b>31st December</b> <b>2004</b> <i>HK\$'000</i>
Contracted but not provided for	<u>68,274</u>	<u>43,844</u>
The Group's share of capital commitments of jointly controlled entities and an associated company not included in the above is as follows:		
Contracted but not provided for	<u>34,625</u>	<u>3,526</u>



**(b) Commitments under operating leases**

At 30th June 2005, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	<b>Unaudited</b> <b>As at</b> <b>30th June</b> <b>2005</b> <i>HK\$'000</i>	<b>Audited</b> <b>As at</b> <b>31st December</b> <b>2004</b> <i>HK\$'000</i>
Not later than one year	8,838	3,440
Later than one year but not later than five years	11,872	4,958
More than five years	–	189
	<u>20,710</u>	<u>8,587</u>

**15. RELATED PARTY TRANSACTIONS**

During the period, the Group had the following material transactions with related parties, which were carried out in normal course of business at terms determined and agreed by both parties.

- (a) Mr. Lao Yuan Yi, Mr. Yeung Wai Kin and Mr. Wang Jun Yan are Directors of China Assets Investment Management Limited (“CAIML”), a subsidiary of the Company and China Assets (Holdings) Limited (“CAHL”), an associated company of the Company.

During the period, CAIML received a management fee of US\$589,277 (2004: US\$512,730) from CAHL, under the management agreement signed between CAIML and CAHL.

- (b) Key management compensation

	<b>Unaudited</b> <b>Six months ended 30th June</b>	
	<b>2005</b> <i>HK\$'000</i>	<b>2004</b> <i>HK\$'000</i>
Salaries and other short-term employee benefits	3,373	3,060
Retirement benefits cost	260	222
	<u>3,633</u>	<u>3,282</u>

**16. CONTINGENT LIABILITIES**

As at 30th June 2005, the Group had no material contingent liabilities.

**17. EVENT AFTER BALANCE SHEET DATE**

On 16th June 2005, the Group has entered into a conditional agreement for the sale of 37 million shares in RBI Holdings Limited (“RBI”) to RBI at a consideration of HK\$57,720,000. The transaction has been completed in September 2005. Upon disposal, the Group’s shareholding in RBI decreased from 19.95% to 11.08%.

## 2. STATEMENT OF INDEBTEDNESS

### **Borrowings**

As at the close of business on 31st October 2005, being the latest practicable date of the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK\$177 million, comprising secured bank borrowings of approximately HK\$74 million, unsecured bank borrowings of approximately HK\$103 million.

### **Capital commitments**

As at 31st October 2005, the Group had capital commitments of approximately HK\$39 million in respect of construction of the hotel and development of a property project. As at 31st October 2005, the Group's share of capital commitments of jointly controlled entities amounted to approximately HK\$18 million in respect of purchase of fixed assets and development of a property project.

### **Pledge of assets**

As at 31st October 2005, the banking facilities and loans granted to the Group mentioned above were secured by fixed deposits of HK\$15.6 million and land & properties of the Group with an aggregate net book value of HK\$79 million.

### **Contingent liabilities**

As at 31st October 2005, the Group had no material contingent liabilities.

### **Disclaimer**

Save as disclosed herein and apart from intra-group liabilities and normal trade payables in the ordinary course of business of the Group, the Group did not have any outstanding mortgages, charges or bank overdrafts, loans and other similar indebtedness or acceptance of credit or hire purchase commitments or any guarantees or other material contingent liabilities as at the close of business on 31st October 2005.

Save as disclosed above, the Directors have confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Group since 31st October 2005.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 31st October 2005.

**3. FINANCIAL AND TRADING PROSPECTS**

The Group relies principally on its internal resources to fund its operation and investment activities. The Directors are of the opinion that the sale proceeds from the disposal will increase the working capital of the Group and the disposal will have no adverse impact on the trading prospects of the Group.

The Chinese Mainland's economy remains robust and the performance of the industrial business still grows steadily. The Directors are confident that the Group's investments in various joint ventures engaged in different business sectors in the Chinese Mainland will bring good contributions to the Group.

**4. MATERIAL ADVERSE CHANGES**

The Directors have confirmed that there has not been any material adverse change in the financial or trading position of the Group since 31st October 2005.

**5. WORKING CAPITAL**

The Directors are of opinion that, upon completion of the disposal and after taking into account the internal resources and present available banking facilities of the Group, including the proceeds from the disposal, the Group has sufficient working capital to satisfy its requirements for at least the next twelve months from the date of this circular.

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 not contained herein the omission of which would make any statement contained in this circular misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the interests of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 9 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions to section 352 of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as contained in the Listing Rules, were as follows:—

### (i) Long position in the ordinary shares of HK\$0.20 each in the Company (“Shares”)

Name of Directors	Number of Shares			Total	Approximate percentage of the Company’s issued share capital
	Directly beneficially owned	Through controlled corporation	Family interest		
Lao Yuan Yi	51,870,100	72,952,000	–	124,822,100	10.57% (Note 1)
Woo Chai Wei	–	–	72,000	72,000	0.006%

*Note 1:* 72,952,000 Shares are held by Kinmoss Enterprises Limited, the issued share capital of which is wholly beneficially owned by Mr. Lao Yuan Yi.

## (ii) Long position in the rights to acquire Shares

Name of Directors	Number of share options held	Exercise price per share option (HK\$)	Date of grant	Exercise period
Lao Yuan Yi	5,503,900	0.318	11/07/1996	11/01/1997 – 15/07/2006
	10,000,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	22,842,000	0.564	30/11/2005	30/05/2006 – 29/11/2015
Xin Shulin	838,640	0.318	11/07/1996	11/01/1997 – 15/07/2006
	2,500,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	4,464,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
	11,810,000	0.564	30/11/2005	30/05/2006 – 29/11/2015
Yeung Wai Kin	1,494,304	0.318	11/07/1996	11/01/1997 – 15/07/2006
	2,500,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	6,980,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
	11,810,000	0.564	30/11/2005	30/05/2006 – 29/11/2015
Hu Yi Ming	1,000,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	2,300,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
	<u>84,042,844</u>			

## (iii) Long position in the rights to acquire Shares in an associated corporation, China Assets (Holdings) Limited

Name of Directors	Number of share options held	Exercise price per share option (HK\$)	Date of grant	Exercise period
Lao Yuan Yi	725,000	2.65	21/05/2004	25/05/2004 – 23/05/2014
Yeung Wai Kin	700,000	2.65	21/05/2004	25/05/2004 – 23/05/2014

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (i) 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 were taken or deemed to have under

such provisions of the SFO); or (ii) to be entered in the register required to be kept by the Company pursuant to section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

### 3. SUBSTANTIAL SHAREHOLDERS' INTEREST

As at the Latest Practicable Date, so far as is known to the Directors and chief executive of the Company, the following persons or corporations (not being Directors or chief executive of the Company), had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital, were as follows:—

Name of shareholders	Number of Shares held	Approximate percentage of the Company's issued share capital
Lao Yuan Yi	124,822,100 ( <i>Note a</i> )	10.57%
China Assets (Holdings) Limited	248,249,300 ( <i>Note b</i> )	21.01%

*Notes:*

- (a) The interests of Mr. Lao include the 72,952,000 Shares held by Kinmoss Enterprises Limited, and the personal and corporate interests of Mr. Lao as disclosed under the paragraph headed "Directors' Interests" above.
- (b) China Assets (Holdings) Limited is a Hong Kong listed company, which is also an associated company of the Group.

Save as disclosed above, as at the Latest Practicable Date, the Directors are not aware of any other person who, had an interest or short position 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, or who was directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital.

As at the Latest Practicable Date:—

- (i) none of the Directors had any direct or indirect interests in any assets which have since 31st December, 2004 (being the date to which the latest published audited accounts of the Group were made up) been acquired or disposed of by or leased to any members of the Group, or are proposed to be acquired or disposed of by or leased to any members of the Group;
- (ii) none of the Directors was materially interested in any contracts or arrangements entered into by any members of the Group subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service agreement with any members of the Group.

**5. LITIGATION**

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration proceedings of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

**6. COMPETING INTERESTS**

As at the Latest Practicable Date, none of the Directors and his/her respective associates was considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group other than those businesses to which the Directors and his/her associates were appointed to represent the interests of the Company and/or the Group.

**7. MATERIAL CONTRACTS**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material.

- (i) the sale and purchase agreement between Walbeck International Limited and RBI Holdings Limited dated 16th June, 2005 whereby Walbeck International Limited agreed to sell 37,000,000 shares in RBI Holdings Limited for a consideration of HK\$57,720,000;
- (ii) the Geoby Agreement;
- (iii) the G-Baby Agreement;
- (iv) the Dividend Agreement;
- (v) the Deed of Discharge.

**8. GENERAL**

- (i) The company secretary and the qualified accountant of the Company is Mr. Yeung Wai Kin. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong.
- (ii) The registered office and head office and principal place of business of the Company is situated at 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong.

- (iii) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited, which is situated at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (iv) The English text of this circular shall prevail over the Chinese text in case of inconsistency.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

The following documents are available for inspection at the registered office of the Company at Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong up to and including the date of the EGM:–

- (i) the memorandum and articles of association of the Company;
- (ii) the material contracts disclosed in paragraph 7 of this Appendix II;
- (iii) the Annual Reports of the Group for the years ended 31st December, 2003 and 31st December, 2004 and the interim report of the Group for the six months ended 30th June, 2005;
- (iv) circular of the Company dated 11th July, 2005 relating to a discloseable transaction – disposal of 37,000,000 shares of HK\$0.10 each in the issued share capital of RBI Holdings Limited; and
- (v) the Share Option Scheme 2002.



This Appendix provides information required by the Listing Rules Rule 17.04(3) to be provided to Shareholders for their consideration as to whether to vote for or against Resolution No. 2 to be proposed at the EGM in relation to the grant of the New Option, which exceeds the Individual Limit under the Share Option Scheme 2002.

#### PARTICIPANTS AND NUMBER OF OPTIONS TO BE GRANTED

Upon the passing of Resolution No. 2 set out in the EGM Notice, the total number of Shares to be issued upon the exercise of the New Option (which exceeds the Individual Limit) and percentage of total issued share capital of the Company calculated based on the number of Shares in issue on the Latest Practicable Date, are as follows:-

Name of the grantee	Position	No. of Shares to be issued upon exercise of the New Option	Percentage of total no. of shares in issue on the Latest Practicable Date
Mr. Lao	Chairman and Executive Director	22,842,000	1.93%

As at the Latest Practicable Date, the following Options have been granted to Mr. Lao under the Share Option Scheme 1994:-

Name of Directors	Number of share to be issued upon exercise of Options granted	Exercise price per Option (HK\$)	Date of grant	Exercise period
Mr. Lao	5,503,900	0.318	11/07/1996	11/01/1997 – 15/07/2006
	10,000,000	0.816	01/11/1997	01/05/1998 – 12/11/2007

Mr. Lao's shareholding in the Company before and after exercise in full of the New Option is summarised as follows (calculated based on the number of Shares in issue on the Latest Practicable Date):

Shareholder	No. of shares before proposed grant of the New Option to Mr. Lao	Percentage of total no. of shares as at the Latest Practicable Date (before proposed grant of the New Option to Mr. Lao) <i>Note 1</i>	No. of Shares after the exercise of the Options (including New Option granted to Mr. Lao)	Percentage of total no. of Shares after the exercise of the Options (including New Option granted to Mr. Lao) <i>Note 1</i>
Mr. Lao <i>Note 2</i>	124,822,100	10.57%	163,168,000	12.80%

*Note 1:* Assuming no changes in the issued share capital from the Latest Practicable Date to the date of exercise of the Options.

*Note 2:* Please refer to Section 2 and 3 of Appendix II for details of the shares which Mr. Lao is interested in.

## REASONS

Mr. Lao is the Chairman and managing director of the Company and is responsible for overall management of the Company.

The Board is of the view that the grant of the New Option is an appropriate way to motivate Mr. Lao who has contributed significantly to the growth of the Company and the development of the Group, without imposing a financial burden on the Group.

The grant of the New Option has been approved by the independent non-executive Directors who are of the view that Mr. Lao is valuable to the Group and should be rewarded for their contribution to the Group. The Board also considers that grant of the New Option will create further incentives for Mr. Lao to perform, which will ultimately benefit the Company.

## TERMS OF THE NEW OPTION TO BE GRANTED

The New Option will be granted under the Share Option Scheme adopted by the Company on 24th May, 2002. The offer of the grant of the New Option may be accepted by Mr. Lao by payment by him of HK\$1 to the Company on acceptance of the offer of the New Option. There is no performance target that must be achieved before the New Option can be exercised. The options may be exercised at any time during a period not less than 6 months and not more than 10 years from the date of grant of the options and there is no lock-up period for exercise of options.

Pursuant to the terms of the Share Option Scheme 2002, the subscription price for Shares subject to the New Option is HK\$0.564 per Share (the “Subscription Price”), which was determined on the date of the board resolution (30th November, 2005) conditionally approving the grant of the New Option to Mr. Lao subject to Shareholders’ approval (the “Date of Grant”). The Subscription Price is at least the higher of (i) the closing price of the Shares as stated in the daily quotation sheet issued by the Stock Exchange on the Date of Grant; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the Date of Grant; and (iii) HK\$0.20, the nominal value of a Share.

The Shares to be allotted and issued upon the exercise of the New Options will be subject to all the provisions of the memorandum and the articles of association of the Company for the time being in force and will rank *pari passu* with the fully paid Shares in issue on the date the name of Mr. Lao is registered on the register of members of the Company as holder of the shares to be issued on exercise. Prior to Mr. Lao being registered on the register of members of the Company, he shall not have any voting rights, or rights to participate in any dividends or distributions of any rights arising on a liquidation of the Company, in respect of the Shares to be issued upon the exercise of the New Option.

#### **MATERIAL INTEREST IN A TRANSACTION**

Mr. Lao and Kinmoss (the shares of which are wholly owned by Mr. Lao) is required to abstain from voting in favour of Resolution No. 2 to be proposed at the EGM to approve the grant of the New Option to Mr. Lao. Mr Lao and Kinmoss controls or is entitled to exercise control over the voting rights in respect of 124,822,100 Shares, representing 10.57% of the issued share capital of the Company as at the Latest Practicable Date.

There is (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon Kinmoss or (ii) any obligation or entitlement of Kinmoss as at the Latest Practicable Date whereby it has or may have temporarily or permanently passed control over the exercise of voting right in respect of its Shares to a third party.

Assuming Kinmoss does not acquire further Shares between the Latest Practicable Date to the date of the EGM, there is no discrepancy between Kinmoss shareholding interest in the Company as disclosed above and the number of Shares in respect of which it will control or will be entitled to exercise control over the voting right at the EGM.



## FIRST SHANGHAI INVESTMENTS LIMITED

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 227)

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of First Shanghai Investments Limited (the “Company”) will be held at 19th Floor, Wing On House, 71 Des Voeux Road Central, Hong Kong at 3:00 p.m. on Wednesday, 28th December, 2005 for the purpose of considering and, if thought fit, passing the following resolutions which will be proposed as an ordinary resolution:–

### ORDINARY RESOLUTIONS

1. “**THAT** the entering into of:–
  - (i) the conditional agreement dated 7th November, 2005 between the Company, Capital Force Investments Limited (“Capital Force”), SB China Holdings Pte Limited (“SB China”), CRF Investment Limited (“CRF”), Pacific United Development Limited (“PUD”) pursuant to which, inter alia, the Company, Capital Force, SB China and CRF agreed to sell and PUD agreed to purchase an aggregate of 827,824 shares in Geoby International Holdings Limited (“Geoby”) for a consideration of US\$2,201,671, a copy of which has been produced to this meeting marked “A” and initialled by the chairman of the meeting for identification purpose;
  - (ii) a conditional deed of discharge dated 7th November, 2005 between Jiangsu Goodbaby Group Corporation Limited, Sure Growth Investments Limited, Mr. Song Zhenghuan, the Company, Capital Force, SB China, CRF, PUD and Geoby pursuant to which, inter alia, the parties agreed to discharge each others obligations under various options and shareholders arrangements in respect of a plan for issuing shares to the employees, officers, directors and/or consultants of Geoby and its subsidiaries, a copy of which has been produced to this meeting marked “B” and initialled by the chairman of the meeting for identification purpose;
  - (iii) a conditional agreement dated 7th November, 2005 entered into between the Company, Capital Force, SB China, CRF, PUD and G-Baby pursuant to which, inter alia, the Company, Capital Force, SB China, CRF and PUD agreed to sell and G-Baby agreed to purchase 27,300,000 Geoby Shares for an aggregate consideration of US\$122,500,000, subject to adjustments (“G-Baby Agreement”), a copy of which has been produced to this meeting marked “C” and initialled by the chairman of the meeting for identification purpose;

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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- (iv) a conditional dividend agreement dated 7th November, 2005 entered into between the Company and SB China whereby, inter alia, in consideration of HK\$7,600,000 by the Company to SB China, SB China will discharge and release the Company from all rights and claims for dividends attributable to 1,456,000 shares in Geoby sold by SB China to the Company under the Agreement dated 27th May, 2003 between SB China and the Company, unpaid consideration or other obligations arising from or in connection with the SB China Agreement, a copy of which has been produced to this meeting marked “D” and initialled by the chairman of the meeting for identification purpose;

(together the “Agreements”)

be and is hereby approved, ratified and confirmed and that the directors of the Company be and are hereby authorised to implement the transactions referred to in the Agreements and to do all such acts and things and sign such documents as they shall in the absolute discretion and consider necessary or desirable to give effect to the Agreements and the arrangements contemplated thereunder.”

2. “**THAT:**–

the grant of options to Mr. Lao Yuan Yi (the details of which are included in the circular to shareholders of the Company dated 13th December, 2005), pursuant to the share option scheme of the Company adopted on 24th May, 2002, entitling him to subscribe for shares of the Company in excess of 1% of the shares of the Company in issue at the date of grant of the options be and is hereby approved and the Directors be and are hereby authorized to issue and allot shares to him pursuant to the exercise of such options and to do such things and acts as may be necessary or expedient in the opinion of the Directors in order to give full effect to such grant of options.”

By Order of the Board  
**First Shanghai Investments Limited**  
**Lao Yuen Yi**  
*Chairman*

Dated 13th December, 2005

*Registered Office:*

Room 1903, Wing On House  
71 Des Voeux Road Central  
Hong Kong

*Notes:*

1. A form of proxy to be used for the meeting is enclosed.
2. Any member entitled to attend and vote at the meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A proxy need not be a member of the Company. A member may appoint more than one proxy to attend on the same occasion. On a poll every member represent in person or by proxy or by authorised representative shall have one vote for each share of which he is the holder and which is fully paid-up or credited as fully paid-up.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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3. If two or more persons are jointly entitled to share, then in voting upon any question the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other registered holders of the share, and for this purpose seniority shall be determined by the order in which the names stand in the register of members.
4. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if such appointor is a corporation under its common seal, or under the hand of an officer or attorney so authorised.
5. The instrument appointing a proxy shall be deposited at Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong at least forty-eight hours before the time appointed for holding the meeting or adjourned meeting at which the person named in such instrument proposes to vote; otherwise, the person so named shall not be entitled to vote in respect thereof.
6. As at the date of this notice, the Company has four executive Directors, being Messrs. Lao Yuan Yi, Xin Shulin, Steve, Yeung Wai Kin and Hu Yi Ming, one non-executive director being Mr Kwok Lam Kwong, Larry, and three independent non-executive Directors, being Prof. Woo Chia Wei and Mr. Yu Qi Hao and Mr. Liu Ji.