

ANNUAL REPORT 2004

**FIRST SHANGHAI
INVESTMENTS LIMITED**



第一上海

FIRST SHANGHAI GROUP

Corporate Information

BOARD OF DIRECTORS

Chairman and Managing Director

Mr. Lao Yuan Yi

Executive Directors

Mr. Xin Shulin, Steve

Mr. Yeung Wai Kin

Mr. Hu Yi Ming

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

COMPANY SECRETARY

Mr. Yeung Wai Kin

REGISTERED OFFICE

Room 1903, Wing On House

71 Des Voeux Road, Central

Hong Kong

Telephone: (852) 2522 2101

Fax: (852) 2810 6789

E-mail address: enquiry@firstshanghai.com.hk

Website: www.firstshanghai.com.hk

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

SOLICITORS

Richards Butler

T. H. Koo & Associates

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

Standard Chartered Bank

DBS Bank (Hong Kong) Limited

REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of

Hong Kong Limited: 227

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Chairman's Statement

I am pleased to present the Group's annual report and audited accounts for the year ended 31st December 2004. The Group's consolidated turnover and profit attributable to shareholders for the year ended 31st December 2004 amounted to HK\$588 million and HK\$80 million respectively.

BUSINESS REVIEW

For the year ended 31st December 2004, the Group's turnover grew to HK\$588 million when compared to HK\$281 million of 2003. This reflected the consolidation of the eleven months' results of Zhejiang Shaoxing Betung Instrument Company Limited and Zhejiang Shaohong Instrument Company Limited (collectively "Betung"). Following the acquisition of an additional equity interest in Betung in December 2003, Betung became subsidiaries of the Group and its turnover and profit are consolidated to the Group's accounts since then. In December 2004, the Group disposed of 51.8% equity interest in Betung to a third party and still holds 30% interest in Betung. Since then, Betung are treated as associated companies of the Group.

The low interest rate environment in Hong Kong, the implementation of Individual Visit Scheme and closer economic ties with Chinese Mainland have led to a gradual recovery in Hong Kong's economy and market sentiment in 2004. The commission income from brokerage and underwriting increased over 25% from that of 2003 in line with the increase in turnover of Hong Kong main board market. The business of corporate finance and stockbroking achieved significant contributions to the Group's turnover and operating profit.

Phase one of the development of SOHO type properties in Shanghai High-tech Park was completed in 2004. A small portion of the properties was sold with reasonable profit before the year end.

In common with many industrial manufacturing businesses, the profit margin of both Goodbaby Child Products Company Limited ("Goodbaby") and RBI Holdings Limited ("RBI") has been negatively affected by increased global commodity prices for key raw materials such as plastic and steel. During the year, Goodbaby recorded a healthy growth in turnover which partially setoff the negative effect of raw material prices. However, a client of Goodbaby has made a filing under Chapter 11 of US federal bankruptcy laws in 2004 and Goodbaby made a provision of RMB21,000,000 for the amount due from this client. Although RBI obtained a moderate growth in turnover, profit for the year was decreased by 39%. It is because most of RBI's sales order in 2004 were concluded in the first half of the year, only a comparatively small portion of sales orders could be concluded at better selling price.

During the year, KongZhong Corporation, one of the investments of China Assets (Holdings) Ltd. ("China Assets"), has listed its shares on the Nasdaq National Market in the US. China Assets recorded a substantial gain of approximately US\$32 million from this investment of which US\$29 million represented an unrealized gain on listed investment. It had made a provision for impairment in value of investment in Shandong Lukang Pharmaceutical Company Limited of US\$9.8 million in 2004.

During the year, Shanghai Zhong Chuang International Container Storage and Transportation Co. Ltd. ("ZCIC") was restructuring its existing businesses and a new management team has joined the company in the second half year. Due to the increase in administration cost and certain provisions were made during the restructuring process, ZCIC suffered a loss in 2004.

Chairman's Statement

PROSPECTS

2005 is a challenging year. Our Corporate Finance Division continues to adopt the strategy of seeking small to medium sized PRC companies with good quality to list in Hong Kong. To maintain the growth in recent years, our Brokerage Division plans to recruit more good quality staff and research analysts to provide better services and research reports to meet the increasing demand from the clients.

After divestment of certain investments in recent years, China Assets is seeking new investment opportunities in a few selected value-added industries to achieve higher returns. In January 2005, China Assets has signed commitment letter with a third party in respect of a proposed investment in a property fund in Chinese Mainland.

To offset the effect of increase in cost of raw materials, both RBI and Goodbaby have implemented measures to control their other production costs. They will also try to shift part of the burden to their customers.

The development of SOHO type properties in Shanghai Zhangjiang High-tech Park is in a good progress. As scheduled, the first phase of the properties project was completed in 2004. The second phase is expected to be completed in late 2005. The development of a hotel in Kunshan Economy & Technology Development District is within schedule and will commence business by the end of 2005. We believe that both projects will provide reasonable returns to the Group.

ZCIC is now led by its new management team who are very experienced in the logistics business. ZCIC will put most of its efforts to expand the air freight forwarding business and it has built up business relationship with many airline companies. We expect such changes will bring a new opportunity to ZCIC.

The Group is now seeking investment opportunities in the pharmaceutical industry and has preliminary intention to invest in a Chinese company which produces therapeutic proteins with markets mainly in Chinese Mainland. In view of the rising importance of China to the global economy, we strongly believe the Group's experience in investment in Chinese Mainland will enhance the performance of the Group in forthcoming years.

DIVIDEND

The Board recommended a final dividend of HK\$0.01 per share for the year ended 31st December 2004 in the forthcoming Annual General Meeting.

I would like to take this opportunity to express thanks on behalf of the Board to all our clients for their support and to our fellow Directors and staff members for their dedication and contribution.

LAO YUAN YI

Chairman and Managing Director

18th April 2005

Management Discussion and Analysis

RESULTS

For the year ended 31st December 2004, the Group recorded a turnover of HK\$588 million and profit attributable to shareholders of HK\$80 million as compared to HK\$281 million and HK\$94 million respectively in 2003. Basic earnings per share decreased from HK\$0.08 in 2003 to HK\$0.0685 in 2004, down by 14%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group relied principally on its internal resources to fund its operation and investment activities. Bank loans will be raised in occasion to meet the different demands in our various investment projects. During the year, bank loans of HK\$87 million were borrowed for financing the operation of subsidiaries and share margin business. As at 31st December 2004 and share margin business, the Group is holding approximately HK\$202 million cash reserves and the gearing ratio (total borrowings to shareholders' fund) is at the level of 6%. Investment in marketable securities as at 31st December 2004 amounted to approximately HK\$16 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi and we expected that the Group has no significant exposure to foreign exchange fluctuations.

PLEDGE OF ASSETS

Certain properties of the Group with an aggregate net book value of approximately HK\$109 million as at 31st December 2004 (2003: HK\$102 million) as well as fixed deposits of HK\$15 million (2003: HK\$15 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$87 million (2003: HK\$129 million) granted to the Group.

EMPLOYEES

As at 31st December 2004, the Group employed 777 staff, of which 683 are located in the Chinese Mainland. Employee remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 19th Floor, Wing On House, 71 Des Voeux Road, Central, Hong Kong on Monday, 30th May 2005 at 3:00 p.m. for the following purposes:

- 1 To receive and consider the audited financial statements and the Reports of the Directors and the Auditors for the year ended 31st December 2004.
- 2 To re-elect those Directors retiring in accordance with the Articles of Association and fix their remuneration.
- 3 To declare a final dividend of HK\$0.01 per share for the year ended 31st December 2004.
- 4 To re-appoint the Auditors of the Company and to authorize the Board of Directors to fix their remuneration.
- 5 As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT

- (a) the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to purchase its shares subject to and in accordance with the applicable laws, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of the shares to be purchased pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the share capital of the Company in issue as at the date of this Resolution, and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, 'Relevant Period' means the period from the passing of this Resolution until the earlier of:
 - i. the conclusion of the next annual general meeting;
 - ii. the revocation or variation of the authority given under this resolution by ordinary resolution of the shareholders of the Company in general meetings; and
 - iii. the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held."

Notice of Annual General Meeting

- 6 As special business to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT

- (a) the exercise by the Directors of the Company during the Relevant Period of all the powers of the Company to issue, allot and deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which may require the exercise of such power, be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Directors during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) otherwise than pursuant to a right issue where shares are offered to shareholders on a fixed record date in proportion to their then holdings of shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong) or the exercise or subscription right under the share option scheme of the Company, the total nominal amount or share capital issued, allotted, disposed of or agreed conditionally or unconditionally to be issued, allotted or disposed of (whether pursuant to an option or otherwise) shall not in total exceed 20% of the total nominal amount of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, 'Relevant Period' shall have the same meaning as in resolution no. 5(c)"

- 7 As special business to consider and, if thought fit, to pass with or without amendments, the following resolution as an Ordinary Resolution:

"THAT conditional upon resolution no. 5 above being passed, the aggregate nominal amount of the number of shares in the capital of the Company which are purchased by the Company under the authority granted to the Directors as mentioned in resolution no. 5 above shall be added to the aggregate nominal amount of share capital that may be allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to resolution no. 6 above."

By Order of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 18th April 2005

Registered Office:

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

Notice of Annual General Meeting

Notes:

1. The register of members of the Company will be closed from Wednesday, 25th May 2005 to Monday, 30th May 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 24th May 2005.
2. Every member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
3. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the registered office of the Company not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.

Report of the Directors

The Board of Directors submit their report together with the audited accounts for the year ended 31st December 2004

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in notes 14, 15 and 16 to the accounts.

An analysis of the Group's performance for the year by business and geographical segments is set out in note 2 to the accounts.

RESULTS

The results for the year are set out in the consolidated profit and loss account on page 18.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK\$0.01 per ordinary share, totalling HK\$11,736,917 (2003: HK\$14,084,300).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 26 to the accounts.

FIXED ASSETS

Details of the movements in fixed assets of the Group are set out in note 13 to the accounts.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 25 to the accounts.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2004, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$5,133,748 (2003: HK\$32,625,673).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2004.

Report of the Directors

SHARE OPTION

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 ("Listing Rules"). The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. 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 and any other schemes of the Company (including without limitation the 1994 Share Option 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 the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at the date of the annual report is 113,132,370, representing approximately 9.64% of shares in issue of the Company as of that date.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of an option is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the Directors (which shall be less than 10 years from the date of the grant of the relevant option and commences six months after the date of grant) at the price to be determined by the Board of Directors but not less than the highest of the nominal value of the shares, the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

Report of the Directors

Details of share options remain outstanding as at 31st December 2004 are as follows:–

	Options held at 1 January 2004	Options exercised during year	Options lapsed during year	Options held at 31 December 2004	Exercise Price HK\$	Date of Grant	Exercise Period
Directors:–							
Lao Yuan Yi	7,338,100	–	–	7,338,100	0.342	26/09/1995	26/03/1996-07/10/2005
	5,503,900	–	–	5,503,900	0.318	11/07/1996	11/01/1997-15/07/2006
	10,000,000	–	–	10,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
Xin Shulin, Steve	2,534,980	–	–	2,534,980	0.453	26/01/1995	26/07/1995-09/02/2005
	838,640	–	–	838,640	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	4,464,000	–	–	4,464,000	0.283	08/07/1998	08/01/1999-15/07/2008
Yeung Wai Kin	2,401,560	–	–	2,401,560	0.453	26/01/1995	26/07/1995-09/02/2005
	1,494,304	–	–	1,494,304	0.318	11/07/1996	11/01/1997-15/07/2006
	2,500,000	–	–	2,500,000	0.816	01/11/1997	01/05/1998-12/11/2007
	6,980,000	–	–	6,980,000	0.283	08/07/1998	08/01/1999-15/07/2008
Hu Yi Ming	1,000,000	–	–	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	2,300,000	–	–	2,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees	1,952	–	–	1,952	0.453	26/01/1995	26/07/1995-09/02/2005
	4,002,600	–	–	4,002,600	0.318	11/07/1996	11/01/1997-15/07/2006
	950,000	–	–	950,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,804,000	–	–	1,804,000	0.283	08/07/1998	08/01/1999-15/07/2008
	<u>56,614,036</u>	<u>–</u>	<u>–</u>	<u>56,614,036</u>			

The above options granted are not recognised in the accounts until they are exercised. Rule 17.08 of the Listing Rules stipulates that the listed issuer is encouraged to disclose in its annual report and interim report the value of share options granted to the participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share options based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

Report of the Directors

Options in respect of shares in an associated corporation

	Associated corporation	Date of grant	Total options lapsed	Balance of options not exercised as at 31st December 2004	Exercise price	Exercise period
Directors:						
Lao Yuan Yi	China Assets (Holdings) Limited	21/05/2004	–	740,000	2.65	25/05/2004 – 23/05/2014
Yeung Wai Kin	China Assets (Holdings) Limited	21/05/2004	–	700,000	2.65	25/05/2004 – 23/05/2014

The above share options were granted under the share option scheme of China Assets (Holdings) Limited adopted on 19th May 2004.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr. LAO Yuan Yi
 Mr. XIN Shulin, Steve
 Mr. YEUNG Wai Kin
 Mr. HU Yi Ming

* Mr. KWOK Lam Kwong, Larry, J.P.

** Prof. WOO Chia Wei

** Mr. LIU Ji (appointed on 11th March 2004)

** Mr. YU Qi Hao (appointed on 17th March 2005)

* *Mr. Kwok Lam Kwong, Larry, J.P. has been re-designated from being Independent Non-executive Director to Non-executive Director of the Company with effect from 17th March 2005.*

** *Independent non-executive Directors*

Mr. Yeung Wai Kin, Mr. Liu Ji and Mr. Yu Qi Hao retire in accordance with the Company's articles of association and being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors has a service contract with the Company which cannot be terminated by the Company within one year without payment of compensation.

Report of the Directors

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of the Directors of the Company and senior management of the Group are set out as follows (with age in brackets):-

Mr. Lao Yuan-Yi (59). Chairman & Managing Director. Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development and worked at the PRC State Science & Technology Commission, Ministry of Communications of the Peoples Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shu-Lin, Steve (51). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992. Mr. Xin is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated company which are listed on The Stock Exchange of Hong Kong Limited.

Mr. Yeung Wai-Kin (43). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 20 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited and RBI Holdings Limited, the Company's associated companies which are listed in The Stock Exchange of Hong Kong Limited. 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. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (42). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the Group, Mr. Hu was Vice President – Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Professor Woo Chia-Wei (67). Appointed as Independent Non-Executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Lenovo Holdings Limited. He serves on the Commission on Strategic Development and Council of Advisors on Innovation and Technology of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. Kwok Lam-Kwong, Larry, J.P. (49). Appointed as Independent Non-Executive Director in 1994. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Singapore. He is also qualified as an accountant in Hong Kong and Australia. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret/Kwai Chung Hospital, a member of the Traffic Accident Victims Assistance Advisory Committee and a member of the Trade and Industry Advisory Board in Hong Kong. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

Mr. Liu Ji (69). Appointed as Independent Non-Executive Director on 11th March 2004. Mr. Liu is the Honary President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (58). Appointed as Independent Non-Executive Director on 17th March 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. He is an independent advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai, and an independent non-executive director and a member of the audit committee of COL Capital Limited. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenying Wanguo (H.K.) Limited from 1995 to 1997 and a non-executive director from 1997 to 1998.

Report of the Directors

Mr. Wang Jun-Yan (34). Joined the Company in October 1997, is the Managing Director of First Shanghai Financial Holding Limited, an immediate holding company of the financial service division of the Group. He is also director of China Assets (Holdings) Limited, the Company's associated company which is listed in The Stock Exchange of Hong Kong Limited. Mr. Wang has more than 11 years experience in investment banking and securities industry. Mr. Wang holds a bachelor's degree with a major in International Trade from the Zhongshan University and a master's degree in Finance from the University of Hong Kong. He has also studied in a Ph.D. program of Finance in the City University of New York.

Mr Mo Siu-Lun, Henry (42). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 22 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his postgraduate diploma in Engineering Management from City University of Hong Kong, a master's degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a master's degree in Electronic Business from City University of Hong Kong.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARE EQUITY OR DEBT SECURITIES

At 31st December 2004, the interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO") as recorded in the register maintained by the Company under Section 352 of SFO or as notified to the Company are as follows:-

Number of ordinary shares of HK\$0.2 each in the Company:

Name of directors	Personal interests	Family interests	Corporate interests	Total	Percentage
Mr. Lao Yuan-Yi	42,080,000	–	75,308,000	117,388,000	10%
Prof. Woo Chia-Wei	–	72,000	–	72,000	0.006%

No Directors and chief executives has any interest of short positions in the shares or underlying shares of the Company. Arrangement on share options granted to Directors is set out in a separate section of this report.

Apart from the share option scheme stated below, at no time during the period was the Company, its subsidiaries or its associated companies a party to any arrangement to enable the Directors of the Company to hold any interests in the shares or debentures of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Report of the Directors

Ordinary shares of HK\$0.2 each in the Company

		Number of ordinary shares	
		Corporate interests	Percentage
China Assets (Holdings) Limited ("China Assets")	Long position	248,249,300	21.15%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2004.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers respectively are both less than 30% for 2004 and 2003.

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CONNECTED TRANSACTION

The related party transactions disclosed in note 33 to the accounts constituted connected transactions under the Listing Rules.

China Assets Investment Management Limited ("CAIML"), a subsidiary of the Company entered into a management agreement (the "Management Agreement") with China Assets (Holdings) Limited ("China Assets") on 28th March 1991 (with amendments made on 8th April 1992 and 11th October 2004) whereby CAIML was appointed to act as investment manager of China assets and agreed to provide management services to China Assets. The Management Agreement will continue until 31st December 2006 and shall be renewed for further terms of 2 years each provided that the requirements of the Listing Rules are complied with before renewal. The Management Agreement may be terminated by either party by serving 6 months' written notice on the other party.

As at 31st December 2004, the Company is holding approximately 33.8% of the issued share capital of China Assets. China Assets is a substantial shareholder of the Company holding approximately 21.15% of the issued share capital of the Company. Mr. Lao Yuan Yi, a director of the Company and CAIML, Mr Yeung Wai Kin, a director of the Company and CAIML and Mr. Wang Jun Yan, a director of CAIML are interested in the Management Agreement to the extent that all of them are directors of China Assets. Mr. Shi Yucheng, Charlie, a former executive director of China Assets and CAIML, resigned from China Assets and CAIML on 2nd April 2004 and 27th April 2004 respectively. Mr. Tsui Che Yin, Frank, a non-executive director of China Assets who resigned on 14th April 2004, was interested in the Management Agreement to the extent that he was a shareholder of CAIML up to 18th January 2005.

Under the Management Agreement, CAIML is entitled to receive from China Assets a management fee at the rates of (i) 2.75% per annum on the aggregate cost to China Assets of the investment (less any provisions in respect thereof) held by it

Report of the Directors

from time to time; and (ii) 1% per annum on the value of the uninvested net assets of China Assets. In addition, CAIML is entitled to performance bonus based on a specified formula on the return on net assets and net capital gains of China Assets. For the year ended 31st December 2004, the total annual amount paid by China Assets to CAIML under the Management Agreement was HK\$8,009,001. The Management Agreement constitutes a continuing connected transaction of the Company but only subject to reporting and annual review requirements under the Listing Rules.

As a result of the annual review of the Management Agreement as a continuing connected transaction, the directors of the Company (including the independent non-executive directors) confirm that the Management Agreement has been entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:-

	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	1,638,287	1,760,366	1,256,362	1,229,907	1,110,355
Total liabilities (Including minority interests)	307,960	500,570	96,110	125,663	114,979
Total net assets	1,330,327	1,259,796	1,160,252	1,104,244	995,376
Turnover	587,845	281,351	171,614	298,332	289,810
Profit attributable to shareholders	80,352	93,820	49,323	64,948	58,554
Earnings per share					
– basic	6.85 cents	8.00 cents	4.35 cents	5.78 cents	5.21 cents
– fully diluted	6.72 cents	7.88 cents	4.30 cents	5.71 cents	5.19 cents

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

In the opinion of the Directors, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the year.

Report of the Directors

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed issuers as set out in Appendix 10 of the Listing Rules ("Model Code"). Having made specific enquiry, the Company confirmed that all directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held during the current financial year.

AUDITORS

The accounts have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

LAO Yuan Yi

Chairman

Hong Kong, 18th April 2005

Auditors' Report



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
FIRST SHANGHAI INVESTMENTS LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 18 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 April 2005

Consolidated Profit and Loss Account

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
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
Non-current assets					
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	–	–	–
		1,101,000	986,059	1,040,054	1,004,805
Current assets					
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
		537,287	774,307	5,779	58,933
Current liabilities					
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	–	–
		220,097	416,635	84,337	62,759
Net current assets/(liabilities)		317,190	357,672	(78,558)	(3,826)
Total assets less current liabilities		1,418,190	1,343,731	961,496	1,000,979
Non-current liabilities					
Deferred tax liabilities	28	1,057	1,332	–	–
Due to subsidiaries		–	–	110,618	122,609
		1,057	1,332	110,618	122,609
		1,417,133	1,342,399	850,878	878,370
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
Shareholders' funds		1,330,327	1,259,797	850,878	878,370
Minority interests		86,806	82,602	–	–
		1,417,133	1,342,399	850,878	878,370

On behalf of the Board

Lao Yuan Yi
DirectorYeung Wai Kin
Director

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
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)
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/>	<hr/>

Consolidated Cash Flow Statement

For the year ended 31st December 2004

	Note	2004 HK\$'000	2003 HK\$'000
Net cash outflow before financing activities		<u>(96,637)</u>	<u>(68,044)</u>
Financing activities	29(b)		
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		<u>(48,554)</u>	<u>117,973</u>
(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

	Note	2004 HK\$'000	2003 HK\$'000
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		1,330,327	1,259,797

Notes to the Accounts

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Group accounting (continued)

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(continued)***(b) Group accounting** *(continued)**(iv) Translation of foreign currencies (continued)*

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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Fixed assets (continued)

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) **Intangible assets** (continued)

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

(j) 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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(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.

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Employee benefits *(continued)*

(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.

Notes to the Accounts

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:

	2004 HK\$'000	2003 HK\$'000
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	590,272	284,879

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

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)*Primary reporting format – business segments (continued)*

	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
Balance sheet							
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
Other information							
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 Shaozhong 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.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)*Primary reporting format – business segments* (continued)

	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	148,163	89,324	42,496	1,368	–	281,351
Segment results	12,668	27,166	(3,368)	(16,092)	–	20,374
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						93,820
Balance sheet						
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						1,760,366
Segment liabilities	303	205,005	19,475	187,510	–	412,293
Taxation payable						4,342
Deferred tax liabilities						1,332
Total liabilities						417,967
Other information						
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.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION *(continued)***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

	Turnover	Segment	Total	Capital
	2004	results	assets	expenditure
	HK\$'000	2004	2004	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>	<u>14,343</u>	<u>919,099</u>	<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.

Notes to the Accounts

2. TURNOVER, REVENUE AND SEGMENT INFORMATION (continued)*Secondary reporting format – geographical segments (continued)*

	Turnover	Segment	Total	Capital
	2003	results	assets	expenditure
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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>	<u>20,374</u>	<u>1,129,642</u>	<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.

Notes to the Accounts

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Crediting		
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
	<hr/>	<hr/>
Charging		
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
	<hr/>	<hr/>

* included in turnover

** included in other operating income

*** included in other operating expenses

Notes to the Accounts

4. FINANCE COSTS

Interest on bank loans and overdrafts

Group	
2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>
4,709	1,882

5. STAFF COSTS

Staff costs, including directors' remuneration, comprise:

Wages, salaries and allowance
Benefits
Pension cost – defined contribution plans

Group	
2004	2003
<i>HK\$'000</i>	<i>HK\$'000</i>
117,169	72,181
6,032	4,722
5,062	3,515
128,263	80,418

Notes to the Accounts

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 HK\$'000	2003 HK\$'000
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
	<hr/>	<hr/>
Taxation charge	14,211	16,208
	<hr/>	<hr/>

Notes to the Accounts

6. TAXATION (continued)**(a) The amount of taxation charged to the consolidated profit and loss account represents:**
(continued)

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:

	2004 HK\$'000	2003 HK\$'000
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:

	Group	
	2004 HK\$'000	2003 HK\$'000
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>

Notes to the Accounts

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

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

Notes to the Accounts

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(a) Directors' emoluments**

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

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

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:

Emolument bands	Number of directors	
	2004	2003
HK\$		
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	–
	7	7

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

Notes to the Accounts

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS*(continued)***(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:

	2004 HK\$'000	2003 HK\$'000
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:

Emolument bands HK\$	Number of individuals	
	2004	2003
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.

Notes to the Accounts

11. RETIREMENT BENEFIT COSTS *(continued)*

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

Notes to the Accounts

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
Cost or valuation									
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
Accumulated depreciation									
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

Notes to the Accounts

13 FIXED ASSETS (continued)**(a) Group** (continued)

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		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			vehicles	Construction- in-progress	
	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:

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

Notes to the Accounts

13 FIXED ASSETS (continued)

(b) Company

	Motor vehicles
	<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	243
At 31st December 2003	332

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
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)
	859,389	832,654

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.

Notes to the Accounts

14. INVESTMENTS IN SUBSIDIARIES (continued)

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

Name	Place of incorporation/ establishment (see note (b) and (c) below)	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
Shares held directly:					
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

Notes to the Accounts

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

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	
Shares/Investments held indirectly:					
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

Notes to the Accounts

14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment (see note (b) and (c) below)	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
Shares/Investments held indirectly: (continued)					
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
* 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

Notes to the Accounts

14. INVESTMENTS IN SUBSIDIARIES *(continued)*

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	
Shares/Investments held indirectly: <i>(continued)</i>					
* 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
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

Notes to the Accounts

14. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ establishment (see note (b) and (c) below)	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2004	2003	
Shares/Investments held indirectly: (continued)					
* Yongzhou Chang Yi Car Electronic Company Limited	Chinese Mainland	RMB9,400,000	51%	–	Manufacture of autoparts
GTI Financial Information Limited ("GTI") (see note (d) below)	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") (see note (e) below)	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.

Notes to the Accounts

15. INVESTMENTS IN ASSOCIATED COMPANIES

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

Notes to the Accounts

15. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

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") <i>(see notes (a) and (b) below)</i>	Bermuda	371,712,782 ordinary shares of HK\$0.1 each	19.92%	20.16%	Manufacture of toys
China Assets (Holdings) Limited ("China Assets") <i>(see notes (a) and (b) below)</i>	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") <i>(see notes (c) below)</i>	Chinese Mainland	RMB61,950,000	30%	–	Sales of motor vehicle meters and components
Zhejiang Shaohong Instrument Company Limited ("Shaohong") <i>(see notes (c) below)</i>	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.

Notes to the Accounts

15. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

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

RBI

For the year ended 31st December 2004

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

Notes to the Accounts

15. INVESTMENTS IN ASSOCIATED COMPANIES (continued)*China Assets*

For the year ended 31st December 2004

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

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	(4,225)	(5,367)	–	–
	348,390	328,640	124,171	112,378

Notes to the Accounts

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

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.

Notes to the Accounts

16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (continued)

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

Geoby

	2004 HK\$'000	2003 HK\$'000
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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
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>

Notes to the Accounts

17. INVESTMENT SECURITIES (continued)**(a) Listed shares – overseas**

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

Notes to the Accounts

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	4,126	48,924
	<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).

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20. OTHER INVESTMENTS

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

Notes to the Accounts

21. ACCOUNTS RECEIVABLE

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 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 HK\$'000	2003 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 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 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>

Notes to the Accounts

23. SHORT-TERM BANK LOANS AND OVERDRAFTS, SECURED

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

24. ACCOUNTS PAYABLE

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

Note:

The ageing analysis of the trade payables is as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
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
	5,339	190,037

Notes to the Accounts

25. SHARE CAPITAL AND SHARE OPTIONS

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

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	56,614	56,614
Options vested at 31st December	56,614	56,614

Notes to the Accounts

25. SHARE CAPITAL AND SHARE OPTIONS *(continued)*

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

Expiry date	Exercise price <i>HK\$</i>	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
		56,614,036	56,614,036

Notes to the Accounts

26. OTHER RESERVES

	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
Group						
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	594,896	76,094	14,006	46,854	9,387	741,237
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	594,896	76,094	14,006	46,854	9,387	741,237

* 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.

Notes to the Accounts

26. OTHER RESERVES (continued)

	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
Group (Continued)						
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	594,896	73,734	14,006	46,854	7,139	736,629
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	594,896	73,734	14,006	46,854	7,139	736,629

Notes to the Accounts

26. OTHER RESERVES (continued)

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company				
At 1st January 2004 and 31st December 2004	594,896	2,104	14,006	611,006
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	594,896	2,104	14,006	611,006

27. RETAINED PROFITS

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
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)
At 31st December	354,352	288,430	5,134	32,626
Representing:				
Proposed final dividend	11,737	14,084	–	14,084
Other	342,615	274,346	5,134	18,542
At 31st December	354,352	288,430	5,134	32,626
Company and subsidiaries	67,732	97,178	5,134	32,626
Associated companies	133,017	77,390	–	–
Jointly controlled entities	153,603	113,862	–	–
At 31st December	354,352	288,430	5,134	32,626

Notes to the Accounts

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

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.

Notes to the Accounts

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	11,467	(20,569)

Notes to the Accounts

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(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	829,634	829,634	66,981	146,308

Notes to the Accounts

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(c) Acquisition of subsidiaries**

	2004 HK\$'000	2003 HK\$'000
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>14,528</u>	<u>25,300</u>
Satisfied by:		
Cash	<u>14,528</u>	<u>25,300</u>
Analysis of the net cash outflow in respect of the acquisition of subsidiaries:		
	2004 HK\$'000	2003 HK\$'000
Bank balances and cash acquired	3,064	14,458
Cash consideration	(14,528)	(25,300)
	<u>(11,464)</u>	<u>(10,842)</u>

Notes to the Accounts

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)**(d) Disposal of subsidiaries**

	2004 HK\$'000	2003 HK\$'000
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)	–
	61,376	–
Realisation of goodwill	(6,568)	–
Investment in associated companies	(21,089)	–
Gain on disposal	4,241	–
	37,960	–
Satisfied by		
Cash consideration (included in other receivable as at 31st December 2004)	37,909	–
Cash consideration received	51	–
	37,960	–

Analysis of the net cash outflow in respect of the disposal of subsidiaries:

	2004 HK\$'000	2003 HK\$'000
Bank balances and cash disposed	(11,670)	–
Cash consideration	51	–
	(11,619)	–
Net cash outflow in respect of the disposal of subsidiaries	(11,619)	–

Notes to the Accounts

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

Notes to the Accounts

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	<u>43,844</u>	<u>11,568</u>
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	<u>3,526</u>	<u>25,050</u>

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:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
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	<u>189</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<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.