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## Chairman's Statement

I am pleased to present the Group's annual report and audited financial statements for the year ended 31st December 2003. The Group's consolidated turnover and profit attributable to shareholders for the year ended 31st December 2003 amounted to HK\$281 million and HK\$94 million respectively, representing an increase in 64% and 90% from that of last year.

### BUSINESS REVIEW

The year of 2003 is a remarkable year for the Company. As expected, the Hong Kong economy is recovering from the worst situation during the SARS outbreak in the first half of the year. After the signing of the Closer Economic Partnership Arrangement with Chinese Mainland, improvement in market sentiment came in the third quarter and became more evident by the hectic IPO activities at the end of the year. The expansion in our brokerage team and the enlargement of the Group's investment portfolios have just grasped the upturn in Hong Kong stock market and made a substantive contribution to the Group's profit.

Facing the keen competition, Shanghai Zhong Chuang International Container Storage and Transportation Co. Ltd. ("ZCIC") is restructuring its existing businesses and strengthening its management team to cope with the market changes. Due to the increase in administration cost for restructuring and the lessening in profit margin, ZCIC suffered a loss in 2003.

During the year, China Assets (Holdings) Ltd. ("China Assets") disposed of its interest in certain investment projects and recorded a remarkable profit of approximately USD10 million.

Goodbaby Child Products Co. Ltd. ("Goodbaby") maintained its leading position in the industry and continues to contribute stable return to the Group.

RBI Holdings Ltd ("RBI") was affected by the high material costs in the year. However, this negative factor was compensated by the enhancement in efficiency and RBI managed to maintain its gross profit margin. Due to additional provision for possible loss from non-recoverable debts, RBI recorded a slightly drop in profit.

The automotive industry in Chinese Mainland achieved a new record in output and sales of motor vehicles in 2003. Chinese Mainland has become the third largest country in terms of sales of motor vehicles in the world. Benefited from the increase in the market demand, Zhejiang Shaoxing Betung Instrument Company Limited ("Betung") experienced impressive growth in both turnover and operating profit in the year. With the confidence that the autopart industry in China will continue to growth in future, we have acquired an additional 32% interest in Betung in December 2003.

The litigation for recovery of the deposit of HK\$22.3 million paid by the Group for purchase of an office premises in Lippo Centre was settled out of court and the Group received HK\$9 million in June 2003. The deposit paid had been fully provided in 1998.

# Chairman's Statement

## PROSPECTS

Hong Kong economy is on its way to recovery. Low interest rate environment and rapid economic growth in Chinese Mainland are favourable factors to attract the inflow of international funds to Hong Kong stock market. We are optimistic that the Group's financial services operation will be benefited by these factors and generate a reasonable growth in 2004.

After divestment of certain existing investments, China Assets will focus on seeking new investment opportunities in a few selected value-added industries to achieve higher returns in future.

The development of SOHO type properties in Shanghai Zhangjiang High-tech Park is in a good progress. As scheduled, part of the properties will be completed in 2004. The development of a hotel in Kunshan Economy & Technology Development District is within schedule.

Benefiting from relatively strong economic growth in Chinese Mainland, we believe that Goodbaby and Betung will still perform well in 2004. To improve the performance in 2004, ZCIC will make good efforts to strengthen its efficiency and to reduce its operating cost.

## DIVIDEND

The Board recommended a final dividend of HK\$0.012 per share for the year ended 31st December 2003 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*

13th April 2004

# Management Discussion and Analysis

## RESULTS

For the year ended 31st December 2003, the Group recorded a turnover of HK\$281 million and profit attributable to shareholders of HK\$94 million as compared to HK\$172 million and HK\$49 million respectively in 2002. Basic earnings per share increased from HK4.35 cents in 2002 to HK8.00 cents in 2003 up by 84%.

## MAJOR ACQUISITIONS

In July 2003, the Group acquired an additional 6.88% equity interest in Geoby International Holdings Limited ("Geoby"), the immediate holding company of Goodbaby Child Products Company Limited ("Goodbaby") at a cash consideration of approximately US\$3.8 million. After the acquisition, the Company has 63.83% shareholding in Geoby and which representing 49.5% effective equity interest in Goodbaby.

In December 2003, the Group acquired an additional 32% equity interest in Betung at a cash consideration of HK\$11.7 million. After the completion, the Group has 73% shareholding in Betung.

## DISPOSAL OF OTHER INVESTMENTS AND CERTAIN INTEREST IN AN ASSOCIATE COMPANY

In June 2003, the Group disposed of approximately 5% equity interest in RBI to realise part of return on this investment at a consideration of HK\$41 million. A gain on disposal of approximately HK\$6 million was achieved. After the disposal, the Group holds approximately 20% equity interest in RBI.

In December 2003, the Group disposed of its 40% interest in BonVision Technology Limited, a company engaged in sales of software and providing IT consultancy services. The proceed and gain on this disposal amounted to HK\$19.5 million and HK\$13.3 million respectively.

## LIQUIDITY AND FINANCIAL RESOURCES

Principally the operation and investment activities of the Group were financed by internal resources. However, the demand for margin loan from our securities clients raised substantially for various IPO activities in the 4th quarter of 2003, bank loans amounted to HK\$120 million were borrowed to meet clients' sudden needs. The Group's principal operations are mainly transacted and recorded in Hong Kong dollars and Renminbi. As at 31st December 2003, the Group had cash and bank balances of approximately HK\$310 million, investment in marketable securities of HK\$28 million and a gearing ratio (total liabilities (including accounts payable arised from stockbrokerage transactions and bank loans for financing client margin loans as mentioned above) excluding minority interest to shareholders' funds) of 33%. The gearing ratio was reduced after the year end as a result of the decrease in margin loan portfolio and stockbrokerage turnover. The Group's deposits are placed with our principal bankers at competitive time deposit interest rate.

## Management Discussion and Analysis

### PLEDGE OF ASSETS

Certain properties of the Group with an aggregate net book value of approximately HK\$102 million as at 31st December 2003 (2002 : HK\$93 million) as well as fixed deposits of HK\$15 million (2002 : HK\$15 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$129 million (2002 : HK\$120 million) granted to the Group.

Investment securities amount to HK\$7.5 million was pledged as securities against a short term bank loan of HK\$70 million.

### EMPLOYEES

As at 31st December 2003, the Group employed 1,591 staff, of which 1,505 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 Wednesday, 19th May 2004 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 Auditors for the year ended 31st December 2003.
- 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\$0.012 per share for the year ended 31st December 2003.
- 4 To re-appoint the Auditors of the Company and to authorize the Board of Directors to fix their remuneration.

By Order of the Board

**LAO Yuan Yi**

*Chairman and Managing Director*

Hong Kong, 13th April 2004

*Registered Office:*

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

*Notes:*

1. The register of members of the Company will be closed from Friday, 14th May 2004 to Wednesday, 19th May 2004, 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 Thursday, 13th May 2004.
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 2003.

### 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\$0.012 per ordinary share, totalling HK\$14,084,300 (2002: HK\$11,733,237).

### RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 23 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 22 to the accounts.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31st December 2003, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$32,625,673 (2002: HK\$55,230,913).

### 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 2003.

### 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

## SHARE OPTION (Cont'd)

Details of share options remain outstanding as at 31st December 2003 are as follows:—

	Options held at 1st January 2003	Options exercised during year	Options lapsed during year	Options held at 31st December 2003	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	266,840	(264,888) <sup>2</sup>	—	1,952	0.453	26/01/1995	26/07/1995-09/02/2005
	4,101,712	(99,112) <sup>1</sup>	—	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
	1,808,000	(4,000) <sup>2</sup>	—	1,804,000	0.283	08/07/1998	08/01/1999-15/07/2008
	<u>56,982,036</u>	<u>(368,000)</u>	<u>—</u>	<u>56,614,036</u>			

- 96,000 options were exercised on 5th September 2003. At that date before the options were exercised, the market value per share was HK\$0.67. The remaining 3,112 options were exercised on 28th October 2003. At that date before the options were exercised, the market value per share was HK\$0.93.
- Exercise date was 28th October 2003. At that date before the options were exercised, the market value per share was HK\$0.93.

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 is 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

## 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
- \* Prof. WOO Chia Wei
- \* Mr. KWOK Lam Kwong, Larry
- \* Mr. LIU Ji (appointed on 11th March 2004)
- Mr. XU Wei Ming (resigned on 23rd May 2003)
  
- \* *Independent non-executive Directors*

Mr. Lao Yuan Yi and Mr. Xin Shulin, Steve retire in accordance with the Company's articles of association and being eligible, offer themselves for re-election.

## DIRECTORS' SERVICE CONTRACTS

Messrs Lao Yuan Yi, Yeung Wai Kin, Xin Shulin, Steve and Hu Yi Ming have service contracts with the Company which are not determinable within one year without payment of compensation.

## 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 (58).** 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, senior staff officer with the PRC State Science & Technology Commission & the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

**Mr. Xin Shu-Lin, Steve (50).** 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 companies which are listed on The Stock Exchange of Hong Kong Limited.

## Report of the Directors

**Mr. Yeung Wai-Kin** (42). 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 Society of Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

**Mr. Hu Yi-Ming** (41). 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** (66). 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 Legend 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. (48). Appointed as Independent Non-Executive Director in 1995. 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 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** (68). Appointed as Independent Non-Executive Director on 11th March 2004. Mr. Liu is the Executive 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. 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.

## Report of the Directors

**Mr Mo Siu-Lun**, Henry (41). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 21 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

Save and except the Management Agreement referred to in the section headed "Continuing Connected Transaction" in this report, 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' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31st December 2003, the interests of the Directors and chief executives in the shares and underlying shares of the Company and 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 the SFO or as notified to the Company were as follows:—

#### Ordinary Shares of HK\$0.2 each in the Company

Name of Directors	Number of ordinary shares			Total	Percentage
	Personal interests	Family interests	Corporate interests		
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 and chief executives are set out in the previous part of this report. Saved as disclosed above, none of the Directors had any interests in shares and options of the Company or any of its associated corporations as defined in the SFO as at 31st December 2003.

Apart from the share option scheme as mentioned in previous part of this report, at no time during the year was the Company, subsidiaries or its associated companies a party to any arrangement to enable the Directors and chief executives of the Company and its associated corporations, to hold any interests or short positions in the shares or underlying shares in the Company or its associated corporation.

# Report of the Directors

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2003, the Company had been notified of the following substantial shareholders' interests and short positions, 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 and chief executives.

### Ordinary Shares of HK\$0.2 each in the Company

		Number of ordinary shares	
		Corporate Interest	Percentage
China Assets (Holdings) Limited ("China Assets")	Long positions	238,032,000	20.28%
J.P. Morgan Chase & Co.	Long positions	69,600,000	5.93%
	Short positions	24,000,000	2.04%

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 2003.

## 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 2003 and 2002.

## CONTINUING CONNECTED TRANSACTION

Prior to the listing of securities of China Assets (the substantial shareholder of the Company) on 15th April 1992, China Assets entered into a management agreement (the "Management Agreement") with China Assets Investment Management Limited ("CAIML") on 28th March 1991 whereby CAIML was appointed to act as investment manager of China Assets and agreed to provide management services and present suitable investment opportunities to China Assets. The Management Agreement was subsequently amended on 8th April 1992. Although the Management Agreement does not provide a specific term, either China Assets or CAIML may terminate the same by serving 6 months written notice on the other party.

## Report of the Directors

On 2nd May 2001, the Company acquired 30.9% equity interest in CAIML. On 22nd September 2003, as a result of a rights issue of CAIML, the Company increased its shareholding in CAIML from 30.9% to 65.45% and CAIML has become a subsidiary of the Company. Taking into account the on-going nature of the Management Agreement, the Management Agreement has become a continuing connected transaction of the Company.

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 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 financial years 2001, 2002 and 2003, the total annual amounts paid by China Assets to CAIML under the Management Agreement are US\$1,237,757 (approximately HK\$9,654,505), US\$1,232,363 (approximately HK\$9,612,431) and US\$1,055,508 (approximately HK\$8,232,962) respectively, and represent only around 0.88%, 0.87% and 0.66% of the value of consolidated net tangible assets of the Group in the relevant financial years. No performance bonus had been paid for the financial years 2001, 2002 and 2003. As a result, independent shareholders' approval of the Management Agreement is exempted under the Listing Rules. As at the date of this report, the directors of the Company are not aware of any circumstances as a result of which the exemption is no longer applicable.

The Directors of the Company confirm that none of them has any equity interest in CAIML or any personal interest in the Management Agreement except that (a) Mr. Lao Yuan Yi, a director of the Company, China Assets and CAIML, has an indirect interest in CAIML through his 3.59% personal interests and 6.42% corporate interests in the Company; (b) Mr. Yeung Wai Kin, a director of the Company, is also a director of China Assets and CAIML; (c) Mr. Wang Jun Yan, a director of CAIML, is also a director of China Assets. In this connection, Mr. Tsui Che Yin, Frank, who holds 3% equity interest in CAIML, is a non-executive director of China Assets.

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 their views that the Management Agreement has been entered into (i) in the ordinary and usual course of business of CAIML, being a subsidiary of the Company; (ii) on normal commercial terms; and (iii) on terms that are fair and reasonable and as a whole in the interests of the shareholders of CAIML and the Company.

An announcement will be made by the Company disclosing details of the continuing connected transaction shortly after the dispatch of the annual report 2003.

# Report of the Directors

## FIVE YEAR FINANCIAL SUMMARY

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

	2003	Restated 2002	Restated 2001	Restated 2000	Restated 1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	1,760,366	1,256,362	1,229,907	1,110,355	1,044,670
Total liabilities (Including minority interests)	500,570	96,110	125,663	114,979	109,417
Total net assets	1,259,796	1,160,252	1,104,244	995,376	935,253
Turnover	281,351	171,614	298,332	289,810	719,455
Profit attributable to shareholders	93,820	49,323	64,948	58,554	54,426
Earnings per share					
— basic	8.00 cents	4.35 cents	5.78 cents	5.21 cents	5.11 cents
— fully diluted	7.88 cents	4.30 cents	5.71 cents	5.19 cents	5.09 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, except that the independent non-executive Directors of the Company are not appointed for specific terms and are subject to re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

## AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998 and the Company has appointed the two independent non-executive Directors of the Company, Prof. Woo Chia Wei and Mr. Kwok Lam Kwong, Larry J.P. as members of the Audit Committee. The Audit Committee acts in an advisory capacity and makes recommendations to the Board. Three meetings were held in 2003. Mr. Liu Ji was appointed as a member of the Audit Committee on 11th March 2004.

## Report of the Directors

### 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 and Managing Director*

Hong Kong, 13th April 2004





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### 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 72 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 Society of 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 judgements 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 2003 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, 13th April 2004

## Consolidated Profit and Loss Account

For the year ended 31st December 2003

	Notes	2003 HK\$	Restated 2002 HK\$
Turnover	2	281,350,560	171,614,459
Cost of sales		(176,921,590)	(121,252,957)
Gross profit		104,428,970	50,361,502
Other revenue	2	3,527,777	5,247,321
Distribution costs		(95,591)	(49,349)
Administrative expenses		(97,785,257)	(68,569,290)
Other operating expenses		(21,531,507)	(6,448,581)
Other operating income		35,357,613	12,927,679
Operating profit/(loss)	3	23,902,005	(6,530,718)
Finance costs	4	(1,882,046)	(262,113)
Share of profits less losses of			
Associated companies	15	42,524,823	34,119,097
Jointly controlled entities	16	42,964,659	34,484,101
Profit before taxation		107,509,441	61,810,367
Taxation	6(a)	(16,207,992)	(12,448,873)
Profit after taxation		91,301,449	49,361,494
Minority interests		2,518,174	(38,809)
Profit attributable to shareholders	7	93,819,623	49,322,685
Dividend	8	14,084,300	11,733,237
Earnings per share			
— basic	9	8.00 cents	4.35 cents
— fully diluted	9	7.88 cents	4.30 cents

# Balance Sheets

As At 31st December 2003

	Notes	Group		Company	
		2003 HK\$	Restated 2002 HK\$	2003 HK\$	2002 HK\$
Intangible assets	12	17,915,699	49,430,316	—	—
Fixed assets	13	228,606,287	146,577,820	331,735	420,187
Deposits for land		9,737,750	16,849,100	—	—
Investments in subsidiaries	14	—	—	832,653,890	694,021,652
Investments in associated companies	15	302,059,025	308,085,622	—	—
Investments in jointly controlled entities	16	328,639,764	260,941,101	112,378,159	115,995,466
Investment securities	17	99,100,049	92,371,995	59,440,855	59,570,676
Current assets					
Inventories	18	57,074,209	1,270,482	—	—
Other investments	19	24,393,565	22,498,682	15,150,000	7,523,050
Margin loans and advances		82,097,582	25,881,122	—	—
Accounts receivable and prepayments	20	285,283,755	63,260,322	21,855,489	2,113,482
Taxation recoverable	6(b)	25,204	1,120	—	—
Deposits with a banking subsidiary		—	—	—	9,967,926
Pledged bank deposits	27(a)	15,000,000	15,000,000	—	—
Bank balances and cash	27(b)	310,433,374	254,194,685	21,928,207	125,413,821
		774,307,689	382,106,413	58,933,696	145,018,279
Current liabilities					
Due to subsidiaries		—	—	122,609,023	103,646,611
Accounts payable and accruals	21	265,985,341	37,363,980	12,759,479	10,551,139
Taxation payable	6(b)	4,341,614	2,379,490	—	—
Bank loans, secured		146,308,360	2,835,037	50,000,000	—
		416,635,315	42,578,507	185,368,502	114,197,750
Net current assets/(liabilities)		357,672,374	339,527,906	(126,434,806)	30,820,529
Total assets less current liabilities		1,343,730,948	1,213,783,860	878,369,833	900,828,510
Financed by:					
Share capital	22	234,738,341	234,664,741	234,738,341	234,664,741
Reserves	23	736,628,538	718,684,825	611,005,819	610,932,856
Retained profits					
Proposed final dividend	24	14,084,300	11,733,237	14,084,300	11,733,237
Other	24	274,345,476	195,169,541	18,541,373	43,497,676
Shareholders' funds		1,259,796,655	1,160,252,344	878,369,833	900,828,510
Deferred tax liabilities	25	1,332,216	1,108,376	—	—
Minority interests		82,602,077	52,423,140	—	—
		1,343,730,948	1,213,783,860	878,369,833	900,828,510

On behalf of the Board

Lao Yuan Yi  
Director

Yeung Wai Kin  
Director

## Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Notes	2003 HK\$	2002 HK\$
Net cash outflow generated from operations	26(a)	(20,568,098)	(45,253,343)
Hong Kong profits tax paid		(3,934,909)	(84,518)
Overseas taxation paid		(350,288)	(290,713)
Interest paid		(1,882,046)	(262,113)
<b>Net cash outflow generated from operating activities</b>		<b>(26,735,341)</b>	<b>(45,890,687)</b>
Investing activities			
Interest received		3,527,777	5,247,321
Dividends received from listed investments		786,855	367,396
Dividends received from jointly controlled entities and associated companies		17,982,303	37,531,270
Acquisition of subsidiaries	26(c)	(10,842,288)	(9,766,730)
Increase in investments in jointly controlled entities		(62,002,322)	(8,664,184)
Proceeds from disposal of partial interest in an associated company		40,630,873	714,622
Loan granted to a jointly controlled entity		—	(3,617,307)
Repayment of a loan granted to a jointly controlled entity		3,617,307	—
Proceeds from disposal of fixed assets		2,151	341,793
Purchase of fixed assets and deposit for lands		(39,954,300)	(18,893,032)
Purchases of investment securities		(1,057,438)	(34,028,578)
Proceeds from disposal of investment securities		6,000,000	31,727,355
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(41,369,082)</b>	<b>959,926</b>

## Consolidated Cash Flow Statement

For the year ended 31st December 2003

	Notes	2003 HK\$	2002 HK\$
Net cash outflow before financing activities		(68,044,423)	(44,930,761)
Financing activities	26(b)		
Dividend paid		(11,733,237)	(16,969,856)
Dividend paid to minority shareholders of subsidiaries		(2,470,128)	—
Issue of ordinary shares		152,644	—
Share issue expenses		(6,081)	(12,600)
New short term loans		120,000,000	—
Increase in investment in a subsidiary from a minority shareholder		12,030,038	7,870,873
Net cash inflow/(outflow) from financing activities		117,973,236	(9,111,583)
Increase/(decrease) in cash and cash equivalents		49,928,813	(54,042,344)
Cash and cash equivalents at 1st January		254,194,685	306,404,675
Effect of foreign exchange rate changes		6,309,876	1,832,354
Cash and cash equivalents at 31st December		310,433,374	254,194,685
Analysis of the balances of cash and cash equivalents			
Bank balances and cash		310,433,374	254,194,685
		310,433,374	254,194,685

## Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital HK\$ (note 22)	Reserves HK\$ (note 23)	Retained profits HK\$ (note 24)	Total HK\$
At 1st January 2003, as previously reported	234,664,741	721,406,985	203,375,194	1,159,446,920
Effect of adopting SSAP 12	—	(2,722,160)	3,527,584	805,424
At 1st January 2003, as restated	<b>234,664,741</b>	<b>718,684,825</b>	<b>206,902,778</b>	<b>1,160,252,344</b>
Issue of shares	73,600	72,963	—	146,563
Share of post-acquisition reserves of a subsidiary, an associated company and a jointly controlled entity	—	17,917	—	17,917
Reversal of goodwill previously written off on disposal of an associate company	—	9,013,001	—	9,013,001
Exchange differences on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	—	8,280,444	—	8,280,444
Profit for the year	—	—	93,819,623	93,819,623
Transfer from retained profits to capital reserve	—	559,388	(559,388)	—
2002 final dividend paid	—	—	(11,733,237)	(11,733,237)
As 31st December 2003	<b>234,738,341</b>	<b>736,628,538</b>	<b>288,429,776</b>	<b>1,259,796,655</b>

## Consolidated Statement of Changes in Equity

For the year ended 31st December 2003

	Share capital HK\$ (note 22)	Reserves HK\$ (note 23)	Retained profits HK\$ (note 24)	Total HK\$
At 1st January 2002, as previously reported	226,264,741	706,199,456	171,416,059	1,103,880,256
Effect of adopting SSAP 12	—	(2,770,160)	3,133,890	363,730
At 1st January 2002, as restated	226,264,741	703,429,296	174,549,949	1,104,243,986
Issue of shares	8,400,000	12,587,400	—	20,987,400
Share of post-acquisition reserves of associated companies and jointly controlled entities	—	755,258	—	755,258
Exchange differences on translation of the accounts of foreign subsidiaries, associated companies and jointly controlled entities	—	2,186,012	—	2,186,012
Profit for the year	—	—	49,322,685	49,322,685
2001 final dividend paid	—	—	(16,969,856)	(16,969,856)
Deferred tax effect on revaluation	—	48,000	—	48,000
Deficit on revaluation of investment properties	—	(321,141)	—	(321,141)
As 31st December 2002	234,664,741	718,684,825	206,902,778	1,160,252,344

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated 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 Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain properties, investment properties and investments in securities are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003.

The changes to the Group's accounting policies and the effect of adopting the new policy are set out below in note 1(k).

### (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, 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.



# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (b) Group accounting (Cont'd)

#### (i) Consolidation (Cont'd)

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

#### (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 provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

#### (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 provision for 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.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (b) Group accounting (Cont'd)

##### (iv) Translation of foreign currencies

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

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

#### (c) Fixed assets

##### (i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties held on leases with unexpired periods more than 20 years are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties 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 revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (c) Fixed assets (Cont'd)

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

In previous years the Group carried its leasehold land and buildings in Hong Kong at cost or at revalued amounts and revaluation surpluses or deficits are dealt with as movements in the 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 HKSA which provides exemption from the need to make regular revaluations for such assets.

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

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

#### (iv) Construction-in-progress

Construction-in-progress comprises hotel, factories and office buildings under construction, production plant, machinery and other fixed assets under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs 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.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (c) Fixed assets (Cont'd)

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

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

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

#### (d) Intangible assets

##### (i) *Goodwill/negative goodwill*

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

Goodwill on acquisitions occurring on or after 1st January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful economic life. Goodwill is amortised by equal annual instalment over its estimated useful economic life of 2 to 15 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.

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (d) Intangible assets (Cont'd)

##### (i) Goodwill/negative goodwill (Cont'd)

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 right

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

##### (iii) Patent

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

##### (iv) Impairment of intangible assets

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

#### (e) Operating leases

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

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (f) Investments in securities

##### (i) *Investment securities*

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

##### (ii) *Other investments*

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

#### (g) Inventories

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

#### (h) Accounts receivable

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

#### (i) Cash and cash equivalents

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

## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (j) 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.

#### (k) Deferred taxation

Under the revised SSAP 12, 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 ventures, 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.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Consolidated Statement of Changes in Equity, opening retained earnings at 1st January 2003 and 2002 have been increased by HK\$3,527,584 and HK\$3,133,890 respectively and opening reserves at 1st January 2003 and 2002 have been decreased by HK\$2,722,160 and HK\$2,770,160 respectively. Profit for the year ended 31st December 2002 has been increased by HK\$393,694 accordingly.

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

# Notes to the Accounts

## 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

### (l) Revenue recognition (Cont'd)

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.

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

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

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

### (m) 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 and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

With effective from 1st December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund (the "MPF"). The Group's contributions to the MPF are expensed as incurred and are 100% vested in the employees as soon as they are paid to the MPF but all benefits derived from the mandatory contributions must be preserved until the employee reaches the age of 65 subject to a few exceptions. The MPF is a defined contribution retirement scheme administered by independent trustees.



## Notes to the Accounts

### 1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

#### (m) Employee benefits (Cont'd)

##### (iii) Pension obligations (Cont'd)

As stipulated by rules and regulations in Chinese Mainland, the Group contributes to state-sponsored retirement plans for its employees in Chinese Mainland. The Group contributes to the retirement plans approximately 22.5% of the basic salaries of its employees, and has no further obligations for the actual payment of post-retirement benefits.

##### (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.

#### (n) 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 charge to the profit and loss account in the year in which they are incurred.

#### (o) Segment reporting

In accordance with the Group's internal financial report 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, deposits for land, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude taxation and deferred taxation. Capital expenditure comprises additions to intangible asset and fixed assets and including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is 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, investment holding, property holding and management. Revenues recognised during the year are as follows:

	2003 HK\$	2002 HK\$
Turnover		
Securities trading and investment	148,162,526	77,791,005
Corporate finance and stockbroking	89,324,240	50,716,287
Container transportation and freight forwarding services	42,495,812	42,206,430
Investment holding, property holding and management	1,367,982	900,737
	281,350,560	171,614,459
Other revenue		
Interest income	3,527,777	5,247,321
Total revenues	284,878,337	176,861,780

#### Primary reporting format — business segments

The Group is organised into five main business segments:

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

## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

#### Primary reporting format — business segments (Cont'd)

	Securities trading and investment 2003 HK\$	Corporate finance and stockbroking 2003 HK\$	Container transportation and freight forwarding services 2003 HK\$	Investment holding, property holding and management 2003 HK\$	Sales of child products 2003 HK\$	Group 2003 HK\$
Turnover	148,162,526	89,324,240	42,495,812	1,367,982	—	281,350,560
Segment results	12,668,217	27,166,045	(3,368,523)	(16,091,511)	—	20,374,228
Interest income						3,527,777
Finance costs						(1,882,046)
Share of profits less losses of						
— Associated companies	—	—	—	22,549,231	19,975,592	42,524,823
— Jointly controlled entities	—	—	—	3,355,279	39,609,380	42,964,659
Profit before taxation						107,509,441
Taxation						(16,207,992)
Profit after taxation						91,301,449
Minority interests						2,518,174
Profit attributable to shareholders						93,819,623
<b>Balance sheet</b>						
Segment assets	43,131,620	447,201,799	104,086,623	535,222,228	—	1,129,642,270
Investments in associated companies	—	—	—	188,783,277	113,275,748	302,059,025
Investments in jointly controlled entities	—	—	—	41,580,749	287,059,015	328,639,764
Taxation recoverable						25,204
Total assets						1,760,366,263
Segment liabilities	303,030	205,005,172	19,474,878	187,510,621	—	412,293,701
Taxation payable						4,341,614
Deferred tax liabilities						1,332,216
Total liabilities						417,967,531
<b>Other information</b>						
Capital expenditure	2,088	1,277,002	2,935,713	88,637,486	—	92,852,289
Depreciation	30,764	1,093,274	5,433,097	1,931,383	—	8,488,518
Amortisation charge	—	163,764	—	19,392,420	(2,761,631)	16,794,553

## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

#### Primary reporting format — business segments (Cont'd)

	Securities trading and investment 2002 HK\$	Corporate finance and stockbroking 2002 HK\$	Container transportation and freight forwarding services 2002 HK\$	Investment holding, property holding and management 2002 HK\$	Sales of child products 2002 HK\$	Restated Group 2002 HK\$
Turnover	77,791,005	50,716,287	42,206,430	900,737	—	171,614,459
Segment results	(5,559,266)	12,451,707	650,308	(19,320,788)	—	(11,778,039)
Interest income						5,247,321
Finance costs						(262,113)
Share of profits less losses of						
— Associated companies	—	—	—	7,723,607	26,395,490	34,119,097
— Jointly controlled entities	—	—	—	1,900,673	32,583,428	34,484,101
Profit before taxation						61,810,367
Taxation						(12,448,873)
Profit after taxation						49,361,494
Minority interests						(38,809)
Profit attributable to shareholders						49,322,685
<b>Balance sheet</b>						
Segment assets	29,822,049	75,152,946	102,604,218	479,755,311	—	687,334,524
Investments in associated companies	—	—	—	168,925,099	139,160,523	308,085,622
Investments in jointly controlled entities	—	—	—	37,104,910	223,836,191	260,941,101
Taxation recoverable						1,120
Total assets						1,256,362,367
Segment liabilities	475,442	9,803,693	9,114,185	20,805,697	—	40,199,017
Taxation payable						2,379,490
Deferred tax liabilities						1,108,376
Total liabilities						43,686,883
<b>Other information</b>						
Capital expenditure	—	475,555	661,498	67,275,794	—	68,412,847
Depreciation	17,152	967,484	7,099,601	2,414,692	—	10,498,929
Amortisation charge	—	163,763	—	1,040,841	(2,958,379)	(1,753,775)

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

## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

#### 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

	Turnover	Segment Results	Total Assets	Capital Expenditure
	2003	2003	2003	2003
	HK\$	HK\$	HK\$	HK\$
Hong Kong	237,834,002	51,813,230	723,789,392	813,559
Chinese Mainland	43,007,178	(26,799,159)	363,463,232	91,981,628
Others	509,380	(4,639,843)	42,389,646	57,102
	<u>281,350,560</u>	<u>20,374,228</u>	<u>1,129,642,270</u>	<u>92,852,289</u>
Interest income		<u>3,527,777</u>		
Operating profit		<u>23,902,005</u>		
Investments in associated companies			302,059,025	
Investments in jointly controlled entities			328,639,764	
Taxation recoverable			25,204	
Total assets			<u>1,760,366,263</u>	

## Notes to the Accounts

### 2. TURNOVER, REVENUE AND SEGMENT INFORMATION (Cont'd)

#### Secondary reporting format — geographical segments (Cont'd)

	Turnover	Segment Results	Total Assets	Capital Expenditure
	2002	2002	2002	2002
	HK\$	HK\$	HK\$	HK\$
Hong Kong	128,113,321	(8,072,821)	438,261,895	860,030
Chinese Mainland	42,936,162	(1,627,612)	216,031,164	67,490,501
Others	564,976	(2,077,606)	33,041,465	62,316
	<u>171,614,459</u>	<u>(11,778,039)</u>	<u>687,334,524</u>	<u>68,412,847</u>
Interest income		<u>5,247,321</u>		
Operating (loss)		<u>(6,530,718)</u>		
Investments in associated companies			308,085,622	
Investments in jointly controlled entities			260,941,101	
Taxation recoverable			1,120	
Total assets			<u>1,256,362,367</u>	

There are no sales among the geographical segments.

## Notes to the Accounts

### 3. OPERATING PROFIT/(LOSS)

	Group	
	2003 HK\$	2002 HK\$
Operating profit/(loss) is stated after crediting and charging the following:		
<b>Crediting</b>		
Recovery of the deposit for purchase of an office premises	9,000,000	—
Recovery of bad debts previously written off	700,092	—
Interest income		
— on margin loans	6,482,305	2,091,994
— on bank deposits	3,527,777	5,247,321
Dividend income from listed investments	786,855	367,396
Gross rental income from investment properties	308,256	214,707
Gain on disposal of investment securities, unlisted	1,439,257	7,926,311
Gain on disposal of other investment, unlisted	13,259,391	—
Gain on disposal of partial interest in an associated company	6,001,759	118,851
Gain on disposal of fixed assets	—	34,271
Net exchange gain	—	89,620
Amortisation of negative goodwill of partial interest in a jointly controlled entity*	2,958,379	2,958,379
Amortisation of negative goodwill on acquisition of a subsidiary*	219,912	—
<b>Charging</b>		
Depreciation	8,488,518	10,498,929
Amortisation of trading right and patent	163,764	163,763
Amortisation of goodwill on acquisition of partial interest in jointly controlled entities and an associated company**	515,618	226,631
Amortisation of goodwill on acquisition of subsidiaries**	19,293,462	814,210
Staff costs (note 5)	80,417,893	55,325,905
Direct expense in respect of container transportation and freight forwarding services	40,238,183	38,565,576
Operating leases rental in respect of land and buildings	2,907,690	1,645,466
Outgoings in respect of investment properties	112,210	160,670
Auditors' remuneration	1,231,984	1,266,625
Unrealised loss on revaluation of other investments	1,238,119	1,411,950
Provision for doubtful debts	—	3,566,544
Loss on disposal of fixed assets	36,499	—
Net exchange loss	298,073	—

\* included in other operating income

\*\* included in other operating expenses

## Notes to the Accounts

### 4. FINANCE COSTS

	Group	
	2003 HK\$	2002 HK\$
Interest on bank loans	1,882,046	262,113

### 5. STAFF COSTS

Staff costs including directors' remuneration comprise:

	Group	
	2003 HK\$	2002 HK\$
Wages, salaries and allowance	72,181,233	49,856,503
Medical and other benefits	4,721,467	2,348,717
Pension cost — defined contribution plans	3,515,193	3,120,685
	80,417,893	55,325,905



## Notes to the Accounts

### 6. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the year. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. 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	
	2003 HK\$	Restated 2002 HK\$
Hong Kong profits tax		
Current	4,425,637	2,302,036
Over provision in previous year	—	(314,711)
Overseas taxation		
Current	(215,190)	106,548
Deferred taxation	42,216	(112,944)
Share of taxation attributable to:		
Associated companies	4,323,508	4,002,649
Jointly controlled entities	7,631,821	6,465,295
	<b>16,207,992</b>	<b>12,448,873</b>

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

	2003 HK\$	2002 HK\$
Profit before taxation	107,509,441	61,810,367
Calculated at a taxation rate of 17.5% (2002: 16%)	18,814,152	9,889,659
Effect of different taxation rates in other countries	(1,135,175)	(2,010,729)
Income not subject to taxation	(11,081,706)	(4,251,625)
Expenses not deductible for taxation purposes	5,882,241	3,808,366
Utilisation of previously unrecognised tax losses	(279,953)	—
Unrecognised deferred tax assets	3,890,232	4,939,464
Others	118,201	73,138
Taxation charge	<b>16,207,992</b>	<b>12,448,873</b>

## Notes to the Accounts

### 6. TAXATION (Cont'd)

(b) The amount of taxation in the Group's balance sheet represents:

	Group	
	2003 HK\$	2002 HK\$
Recoverable		
Hong Kong	—	1,120
Overseas	25,204	—
	25,204	1,120
Payable		
Hong Kong	1,944,888	2,236,958
Overseas	2,396,726	142,532
	4,341,614	2,379,490

### 7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the profit attributable to shareholders is a loss of HK\$10,872,003 (2002: loss of HK\$4,248,342) which is dealt with in the accounts of the Company.

### 8. DIVIDEND

	2003 HK\$	2002 HK\$
Final, proposed, of HK\$0.012 (2002: HK\$0.01) per ordinary share	14,084,300	11,733,237

Notes:

At a meeting held on 13th April 2004 the Directors declared a final dividend of HK\$0.012 per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

### 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\$93,819,623 (2002: HK\$49,322,685). The basic earnings per share is based on the weighted average number of 1,173,402,915 (2002: 1,132,934,664) shares in issue during the year. The diluted earnings per share is based on 1,190,206,060 (2002: 1,146,827,368) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 16,803,145 (2002: 13,892,704) 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' remuneration

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

	2003 HK\$'000	2002 HK\$'000
Fees	540	540
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	6,431	6,008
Discretionary bonuses	5,000	4,220
Retirement scheme contributions	400	350
	12,371	11,118

Directors' fees disclosed above include HK\$540,000 (2002: HK\$540,000) paid to independent non-executive Directors.

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

#### (a) Directors' remuneration (Cont'd)

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

The emoluments of the Directors fell within the following bands:

Emolument bands <i>HK\$</i>	Number of directors	
	2003	2002
0 — 1,000,000	4	6
1,000,001 — 1,500,000	—	—
1,500,001 — 2,000,000	—	1
2,000,001 — 2,500,000	—	1
2,500,001 — 3,000,000	1	—
3,000,001 — 3,500,000	1	—
3,500,001 — 4,000,000	—	—
4,000,001 — 4,500,000	—	—
4,500,001 — 5,000,000	—	—
5,000,001 — 5,500,000	1	—
5,500,001 — 6,000,000	—	—
6,000,001 — 6,500,000	—	1
	7	9

No Directors have waived emoluments in respect of the years ended 31st December 2003 and 2002.

#### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2002: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2002: two) individuals during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Basic salaries, housing allowances, other allowances and benefits in kind	3,891	3,866
Discretionary bonuses	8,675	93
Retirement scheme contributions	80	74
	12,646	4,033

## Notes to the Accounts

### 10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Cont'd)

#### (b) Five highest paid individuals (Cont'd)

The emoluments fell within the following bands:

Emolument bands HK\$	Number of individuals	
	2003	2002
0 — 1,000,000	—	—
1,000,001 — 1,500,000	—	—
1,500,001 — 2,000,000	—	1
2,000,001 — 2,500,000	—	1
2,500,001 — 3,000,000	1	—
3,000,001 — 3,500,000	—	—
3,500,001 — 4,000,000	—	—
4,000,001 — 4,500,000	—	—
4,500,001 — 5,000,000	—	—
5,000,001 — 5,500,000	—	—
5,500,001 — 6,000,000	—	—
6,000,001 — 6,500,000	—	—
6,500,001 — 7,000,000	—	—
7,000,001 — 7,500,000	—	—
7,500,001 — 8,000,000	—	—
8,000,001 — 8,500,000	—	—
8,500,001 — 9,000,000	—	—
9,000,001 — 9,500,000	—	—
9,500,001 — 10,000,000	1	—
	2	2

## Notes to the Accounts

### 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 10% from the 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. The Group also contributes to retirement plans for its employees in the Chinese Mainland and overseas at a percentage in compliance with the requirements of the respective overseas authorities.

With effective from 1st December 2000, the Group's Hong Kong employees may elect to join the Mandatory Provident Fund. Both the employer and the employees have to contribute 5% of the employees' gross salary or HK\$1,000, whichever is lower.

Forfeited contributions totalling HK\$25,869 (2002: HK\$116,656) were utilised during the year. There is no outstanding balance as at the balance sheet dates of 2003 and 2002 available to reduce the contributions payable in the future years.

Contributions totalling HK\$93,144 (2002: HK\$75,732) were payable to the retirement schemes at the year-end and are included in accounts payable.

### 12. INTANGIBLE ASSETS

#### Group

	Goodwill HK\$	Negative goodwill HK\$	Future Exchange trading right & Patent HK\$	Total HK\$
Cost				
At 1st January 2003	48,852,571	—	1,637,600	50,490,171
Acquisition of subsidiaries (note 26(c))	781,181	(13,194,711)	2,868,688	(9,544,842)
<b>At 31st December 2003</b>	<b>49,633,752</b>	<b>(13,194,711)</b>	<b>4,506,288</b>	<b>40,945,329</b>
Accumulated amortisation				
At 1st January 2003	(814,210)	—	(245,645)	(1,059,855)
Charge for the year	(19,293,462)	219,912	(163,764)	(19,237,314)
Acquisition of subsidiaries (note 26(c))	—	—	(2,732,461)	(2,732,461)
<b>At 31st December 2003</b>	<b>(20,107,672)</b>	<b>219,912</b>	<b>(3,141,870)</b>	<b>(23,029,630)</b>
Net book value				
<b>At 31st December 2003</b>	<b>29,526,080</b>	<b>(12,974,799)</b>	<b>1,364,418</b>	<b>17,915,699</b>
At 31st December 2002	48,038,361	—	1,391,955	49,430,316

## Notes to the Accounts

### 13. FIXED ASSETS

#### (a) Group

	Group									Total HK\$
	Investment properties		Land and buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles	Construction- in-progress		
	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\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	
<b>Cost or valuation</b>										
At 1st January 2003	5,700,000	10,950,000	97,484,671	23,531,854	20,248,702	7,823,058	52,503,221	36,982	218,278,488	
Exchange adjustment	—	—	—	—	19,886	—	—	—	19,886	
Additions	—	—	—	3,396,047	4,939,381	1,305,004	1,067,244	36,357,974	47,065,650	
Acquisition of subsidiaries (note 26(c))	—	—	—	37,536,385	745,382	31,540,135	2,524,903	94,340	72,441,145	
Reclassifications	—	—	—	—	36,982	—	—	(36,982)	—	
Disposals	—	—	—	—	(61,985)	—	—	—	(61,985)	
<b>At 31st December 2003</b>	<b>5,700,000</b>	<b>10,950,000</b>	<b>97,484,671</b>	<b>64,464,286</b>	<b>25,928,348</b>	<b>40,668,197</b>	<b>56,095,368</b>	<b>36,452,314</b>	<b>337,743,184</b>	
<b>Accumulated depreciation</b>										
At 1st January 2003	—	—	10,138,672	11,065,276	12,242,827	2,961,203	35,292,690	—	71,700,668	
Exchange adjustment	—	—	—	—	10,448	—	—	—	10,448	
Charge for the year	—	—	1,271,580	122,315	2,569,677	2,106,883	2,418,063	—	8,488,518	
Acquisition of subsidiaries (note 26(c))	—	—	—	8,409,867	677,743	18,120,094	1,752,894	—	28,960,598	
Disposals	—	—	—	—	(23,335)	—	—	—	(23,335)	
<b>At 31st December 2003</b>	<b>—</b>	<b>—</b>	<b>11,410,252</b>	<b>19,597,458</b>	<b>15,477,360</b>	<b>23,188,180</b>	<b>39,463,647</b>	<b>—</b>	<b>109,136,897</b>	
<b>Net book value</b>										
At 31st December 2003	5,700,000	10,950,000	86,074,419	44,866,828	10,450,988	17,480,017	16,631,721	36,452,314	228,606,287	
At 31st December 2002	5,700,000	10,950,000	87,345,999	12,466,578	8,005,875	4,861,855	17,210,531	36,982	146,577,820	

## Notes to the Accounts

### 13. FIXED ASSETS (Cont'd)

#### (a) Group (Cont'd)

The analysis of the cost or valuation at 31st December 2003 of the above assets is as follows:

	Group									Total HK\$
	Investment properties		Land and buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction- in-progress		
	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\$	HK\$	HK\$	HK\$						
At cost	—	—	844,231	64,464,286	25,928,348	40,668,197	56,095,368	36,452,314	224,452,744	
At professional valuation										
— 1994	—	—	96,640,440	—	—	—	—	—	96,640,440	
— 2003	5,700,000	10,950,000	—	—	—	—	—	—	16,650,000	
	5,700,000	10,950,000	97,484,671	64,464,286	25,928,348	40,668,197	56,095,368	36,452,314	337,743,184	

Investment properties were revalued at 31st December 2003 on the basis of their open market values by Chung, Chan & Associates, an independent firm of chartered surveyors. The valuation of the investment properties remained the same as that at 31st December 2002.

The carrying amount of the land and buildings in Hong Kong under long-term leases would have been HK\$40,374,952 (2002: HK\$41,665,909) had they been stated at cost less accumulated depreciation.

At 31st December 2003, the net book value of fixed assets pledged as security for the Group's short-term loans amounted to HK\$102,196,917 (2002: HK\$93,045,999).

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

	2003 HK\$	2002 HK\$
In Hong Kong, held on Leases of over 50 years	91,774,419	93,045,999
Outside Hong Kong, held on Leases of over 50 years	10,950,000	10,950,000
Leases of between 10 to 50 years	44,866,828	12,466,578
	55,816,828	23,416,578



## Notes to the Accounts

### 13. FIXED ASSETS (Cont'd)

#### (b) Company

	Motor vehicles HK\$
Cost	
At 1st January 2003 and at 31st December 2003	442,300
Accumulated depreciation	
At 1st January 2003	22,113
Charge for the year	88,452
At 31st December 2003	110,565
Net book value	
At 31st December 2003	331,735
At 31st December 2002	420,187

### 14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003 HK\$	2002 HK\$
Unlisted investments, at cost	33,690,742	33,690,664
Loans to subsidiaries	1,042,063,783	895,721,741
Less: accumulated impairment losses	(243,100,635)	(235,390,753)
	832,653,890	694,021,652

Except for HK\$70,000,000 loan to First Shanghai Securities Limited which is interest bearing at prime rate plus 1%, the above loans to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The following is a list of the principal subsidiaries at 31st December 2003 (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
			2003	2002	
<b>Shares held directly:</b>					
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares of HK\$1 each	100%	100%	Property investment

## Notes to the Accounts

### 14. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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
			2003	2002	
<b>Shares held directly: (Cont'd)</b>					
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 Investments 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 Information Technology Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
*First Shanghai Financial Holding Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
*Asian & Pacific Commercial Bank Limited	Vanuatu	250,000 ordinary shares of A\$1 each 250,000 preference shares of A\$1 each	100%	100%	Banking services
*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 (Cont'd)

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
			2003	2002	
<b>Shares/Investments held indirectly:</b>					
First Shanghai Capital Limited	Hong Kong	12,000,000 ordinary shares of HK\$1 each	100%	100%	Corporate finance
First Shanghai Securities Limited	Hong Kong	65,000,000 ordinary shares of HK\$1 each	100%	100%	Stockbroking
CVIC International Container Transportation Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Investment holding
*First 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%	—	Property holding
*Yin Zin Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	—	Investment holding
*China Assets Investment Management Limited	Hong Kong	2,000 ordinary shares of HK\$1 each	65.45%	30.9%	Management and investment advisory services

## Notes to the Accounts

### 14. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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
			2003	2002	
<b>Shares/Investments held indirectly: (Cont'd)</b>					
*Public Holdings (Australia) Limited (Listed in Sydney, Australia)	Australia	14,979,000 ordinary shares of A\$0.125 each	<b>78.6%</b>	74.2%	Securities investment
*P.H.A Investment Pty. Limited	Australia	60,000 ordinary shares of A\$2 each	<b>78.6%</b>	74.2%	Property investment
*P.H.A Trading Pty. Limited	Australia	2 ordinary shares of A\$0.5 each	<b>78.6%</b>	74.2%	Securities investment
First Shanghai Futures Limited	Hong Kong	8,000,000 ordinary shares of HK\$1 each	<b>100%</b>	100%	Futures broking
China C&Y International Holdings Limited	Cayman Islands	160,000 ordinary shares of US\$1 each	<b>100%</b>	100%	Investment holding
*First Shanghai Fund Management Limited	British Virgin Islands	100 ordinary shares of US\$1 each	<b>100%</b>	100%	Fund management
*CT Prime Assets Limited	British Virgin Islands	10 ordinary shares Of US\$1 each	<b>100%</b>	100%	Securities investment
*First Shanghai Venture Capital Management Limited	Chinese Mainland	HK\$1,000,000	<b>100%</b>	100%	Venture capital & management
*BonVision International Consulting Limited	Chinese Mainland	HK\$1,000,000	<b>100%</b>	100%	Financial consultancy
*Bonvision Technology (Shanghai) Limited	Chinese Mainland	US\$200,000	<b>100%</b>	100%	Technology consultancy
*Fu Hai Digital Science & Technology (Shanghai) Company Limited	Chinese Mainland	US\$750,000	<b>100%</b>	100%	Property development

## Notes to the Accounts

### 14. INVESTMENTS IN SUBSIDIARIES (Cont'd)

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
			2003	2002	
<b>Shares/Investments held indirectly: (Cont'd)</b>					
*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%	100%	Pharmaceutical services
*Shanghai Transvision Network Application Services Company Limited	Chinese Mainland	US\$1,800,000	100%	100%	Information & consultancy services
*Shanghai Yi Hang Logistic Network Management Limited	Chinese Mainland	RMB2,000,000	73.39%	73.39%	Logistics services
*Zhejiang Shaoxing Betung Instrument Company Limited	Chinese Mainland	RMB61,950,000	73%	40.8%	Manufacture of motor vehicles meters and components
*Changchun FAW Sihuan Betung Instrument Company Limited	Chinese Mainland	RMB7,700,000	55%	—	Manufacture of motor vehicles meters and components

\* Subsidiaries not audited by PricewaterhouseCoopers. The aggregate net assets of subsidiaries not audited by PricewaterhouseCoopers amounted to approximately 21% (2002: 7%) 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 limited liability company.

## Notes to the Accounts

### 15. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2003 HK\$	2002 HK\$
Share of net assets	302,059,025	307,739,774
Goodwill on acquisition of associated companies less amortisation	—	345,848
	<b>302,059,025</b>	<b>308,085,622</b>
Investments at cost:		
Shares listed in Hong Kong	190,167,630	216,759,382
Unlisted	—	1,238,787
	<b>190,167,630</b>	<b>217,998,169</b>
Market value of listed shares	<b>264,418,908</b>	<b>205,769,166</b>

The following is a list of the associated companies as at 31st December 2003:

Name	Place of incorporation (see note (b) below)	Particulars of issued share/ registered capital	Effective interests held indirectly		Principal activities
			2003	2002	
RBI Holdings Limited ("RBI") (see note (a) below)	Bermuda	367,462,782 ordinary shares of HK\$0.1 each	20.16%	25.02%	Manufacture of toys
China Assets (Holdings) Limited ("China Assets") (see note (a) below)	Hong Kong	74,383,160 ordinary shares of US\$0.1 each	33.83%	33.83%	Investment holding

Note:

- (a) RBI and China Assets are companies listed on The Stock Exchange of Hong Kong Limited.
- (b) Both associated companies operate principally in Hong Kong.

## Notes to the Accounts

### 15. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

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

#### RBI

	2003 HK\$'000	Restated 2002 HK\$'000
Profit and loss account		
Turnover	573,705	605,405
Profit before taxation	99,630	104,237
Balance sheet		
Long-term assets	286,370	301,882
Current assets	355,325	345,288
Current liabilities	(74,837)	(88,518)
Long-term liabilities	(4,216)	(3,380)
Net assets	562,642	555,272
Group's share of profit before taxation	19,976	26,395

#### China Assets

	2003 HK\$'000	2002 HK\$'000
Profit and loss account		
Turnover	2,460	1,563
Profit before taxation	85,609	34,979
Balance sheet		
Long-term assets	472,657	506,135
Current assets	240,996	135,353
Current liabilities	(2,225)	(6,684)
Net assets	711,428	634,804
Group's share of profit before taxation	22,541	7,827

## Notes to the Accounts

### 16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Share of net assets	334,007,098	267,124,578	—	—
Unlisted investments at cost	—	—	112,378,159	112,378,159
Loans to a jointly controlled entity	—	3,617,307	—	3,617,307
Net negative goodwill on acquisition of jointly controlled entities less amortisation	(5,367,334)	(9,800,784)	—	—
	328,639,764	260,941,101	112,378,159	115,995,466

The following is a list of the principal jointly controlled entities as at 31st December 2003:

Name	Place of incorporation/ establishment and operation	Principal activities	Effective interest in ownership/voting power/profit sharing	
			2003	2002
Goodbaby Bairuikang Hygienic Products Company Limited ("Goodbaby Bairuikang") (see note (a) below)	Chinese Mainland	Production of diapers and related hygienic products	50%	50%
Geoby International Holdings Limited ("Geoby") (see note (b) below)	Cayman Islands	Investment holding	49.5%	44.17%
Genius Technology International Limited ("GTI") (see note (c) below)	Hong Kong	Investment holding	59.71%	41.80%
Shanghai Huan Ya Insurance Agency Company Limited ("Huan Ya") (see note (d) below)	Chinese Mainland	Insurance agency	40%	40%
Shanghai Zhangjiang Information Properties Company Limited ("Zhangjiang") (see note (e) below)	Chinese Mainland	Property development	50%	50%



## Notes to the Accounts

### 16. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

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 was incorporated in the Cayman Islands as a limited liability exempted company on 14th July 2000. Pursuant to an agreement signed among the venturers of Goodbaby Child Products Company Limited ("Goodbaby") in July 2000, the venturers agreed to transfer all equity interest in Goodbaby to Geoby in return for a total of 27,093,200 shares of Geoby. Goodbaby was formerly a jointly controlled entity of the Group. There is no change in effective holding in Goodbaby by the Group after this restructuring. Goodbaby is engaged in the production of baby and infant items.
- (c) GTI had 90% equity interest in Shenzhen Genius Information Technology Company Limited ("Genius"). Genius was established as an equity joint venture in the Chinese Mainland in March 1994 for a term of 50 years. It is engaged in the provision of financial information services in the Chinese Mainland.
- (d) Huan Ya was established as an equity joint venture in the Chinese Mainland in March 2002 for a term of 20 years.
- (e) Zhangjiang was established as an equity joint venture in the Chinese Mainland in October 2002 for a term of 50 years.

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

#### Geoby

	2003 HK\$'000	2002 HK\$'000
Profit and loss account		
Turnover	1,392,991	922,426
Profit before taxation	88,531	68,634
Balance sheet		
Long-term assets	536,059	354,733
Current assets	739,610	664,167
Current liabilities	(731,712)	(545,262)
Long term liabilities	—	(33,842)
Net assets	543,957	439,796
Group's share of profit before taxation	42,897	30,316

## Notes to the Accounts

### 17. INVESTMENT SECURITIES

		Group		Company	
		2003	2002	2003	2002
		HK\$	HK\$	HK\$	HK\$
Listed shares — overseas	(a)	17,909,019	12,801,319	—	—
Unlisted investment in fund					
— quoted in Hong Kong	(b)	15,405,820	20,000,000	—	—
Unlisted investments	(c)	65,785,210	59,570,676	59,440,855	59,570,676
		99,100,049	92,371,995	59,440,855	59,570,676

#### (a) Listed shares — overseas

		Group	
		2003	2002
		HK\$	HK\$
Listed shares — overseas, at cost		17,909,019	12,840,837
Less: accumulated impairment losses		—	(39,518)
		17,909,019	12,801,319
Market value		19,110,064	12,418,737

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

		Group	
		2003	2002
		HK\$	HK\$
Market value		21,352,466	17,840,000

## Notes to the Accounts

### 17. INVESTMENT SECURITIES (Cont'd)

#### (c) Unlisted investments

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Shares, bonds and debenture, at cost	49,957,484	43,742,950	7,830,591	7,960,412
Less: accumulated impairment losses	(35,782,538)	(35,782,538)	—	—
	14,174,946	7,960,412	7,830,591	7,960,412
Loan	66,097,264	66,097,264	66,097,264	66,097,264
Less: accumulated impairment losses	(14,487,000)	(14,487,000)	(14,487,000)	(14,487,000)
	51,610,264	51,610,264	51,610,264	51,610,264
	65,785,210	59,570,676	59,440,855	59,570,676

### 18. INVENTORIES

	Group	
	2003 HK\$	2002 HK\$
Raw materials	5,231,993	1,270,482
Work in progress	2,917,949	—
Finished goods	48,924,267	—
	57,074,209	1,270,482

At 31st December 2003, carrying amount of inventories that are carried at net realizable value amount to HK\$48,924,267 (2002: Nil).

## Notes to the Accounts

### 19. OTHER INVESTMENTS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Equity securities, at fair value				
Listed shares				
— overseas	9,243,413	17,521	—	—
— Hong Kong	152	9,737,152	—	—
	9,243,565	9,754,673	—	—
Unlisted — Hong Kong	15,150,000	12,744,009	15,150,000	7,523,050
Total	24,393,565	22,498,682	15,150,000	7,523,050

Hong Kong unlisted equity securities amount to HK\$7.5 million was pledged as securities against a short term bank loan of HK\$70 million.

### 20. ACCOUNTS RECEIVABLE AND PREPAYMENTS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Due from stockbrokers and Hong Kong Securities Clearing Company Limited	76,349,877	5,342,193	—	—
Trade receivables ( <i>note</i> )	129,133,903	23,025,677	—	—
Bills receivable	18,914,363	7,001,224	—	—
Prepayments and deposits	7,738,949	8,591,995	872,700	868,504
Other receivables	53,146,663	19,299,233	20,982,789	1,244,978
	285,283,755	63,260,322	21,855,489	2,113,482

The ageing analysis of the trade receivables is as follows:

	Group	
	2003 HK\$	2002 HK\$
0 — 30 days	101,620,048	14,592,629
31 — 60 days	18,368,900	5,503,860
61 — 90 days	7,248,692	2,700,676
Over 90 days	1,896,263	228,512
	129,133,903	23,025,677

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

## Notes to the Accounts

### 21. ACCOUNTS PAYABLE AND ACCRUALS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Due to stockbrokers and dealers	132,529	—	—	—
Due to stockbroking clients	10,926,215	—	—	—
Trade payables ( <i>note</i> )	190,037,435	7,068,650	—	—
Other accounts payable	30,925,794	20,040,606	5,143,700	4,646,321
Accruals	33,963,368	10,254,724	7,615,779	5,904,818
	<b>265,985,341</b>	<b>37,363,980</b>	<b>12,759,479</b>	<b>10,551,139</b>

The ageing analysis of the trade payables is as follows:

	Group	
	2003 HK\$	2002 HK\$
0 — 30 days	169,850,246	7,006,392
31 — 60 days	12,166,213	50,085
61 — 90 days	6,053,627	10,453
Over 90 days	1,967,349	1,720
	<b>190,037,435</b>	<b>7,068,650</b>

## Notes to the Accounts

### 22. SHARE CAPITAL

	Ordinary shares of HK\$0.2 each			
	2003		2002	
	Number of shares	HK\$	Number of shares	HK\$
<i>Authorised:</i>				
At 1st January and 31st December	2,000,000,000	400,000,000	2,000,000,000	400,000,000
<i>Issued and fully paid:</i>				
At 1st January	1,173,323,705	234,664,741	1,131,323,705	226,264,741
Issue of shares				
— purchase of a subsidiary	—	—	42,000,000	8,400,000
— exercise of share options (note (a))	368,000	73,600	—	—
At 31st December	1,173,691,705	234,738,341	1,173,323,705	234,664,741

- (a) 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. Movements in the number of share options outstanding during the year are as follows:

	Number of Options	
	2003 HK\$	2002 HK\$
At the beginning of the year	56,982,036	57,086,036
Exercised	(368,000)	—
Lapsed	—	(104,000)
At the end of the year (note)	56,614,036	56,982,036
Options vested at 31st December	56,614,036	56,982,036

## Notes to the Accounts

### 22. SHARE CAPITAL (Cont'd)

(a) (Cont'd)

Note:

Options exercised on 5th September 2003 and 28th October 2003 resulted in 368,000 shares being issued at a range from HK\$0.283 to HK\$0.453 each, yielding the following proceeds, after transaction costs, of HK\$146,563:

	2003 HK\$	2002 HK\$
Ordinary share capital — at par	73,600	—
Share premium	72,963	—
	<b>146,563</b>	<b>—</b>
Fair value of shares issued at exercise date of:		
— 5th September 2003	0.80	—
— 28th October 2003	0.92	—

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

Expiry date	Exercise price HK\$	Number of Options	
		2003	2002
9th February 2005	0.453	4,938,492	5,203,380
7th October 2005	0.342	7,338,100	7,338,100
15th July 2006	0.318	11,839,444	11,938,556
12th November 2007	0.816	16,950,000	16,950,000
15th July 2008	0.283	15,548,000	15,552,000
		<b>56,614,036</b>	<b>56,982,036</b>

## Notes to the Accounts

### 23. RESERVES

	Share premium HK\$	* Capital reserve HK\$	Capital redemption reserve HK\$	Land and buildings revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Total HK\$
<b>Group</b>						
At 1st January 2002, as previously reported	582,235,893	63,720,524	14,006,400	49,582,825	(3,346,186)	706,199,456
Effect of adopting SSAP12	—	(314,250)	—	(2,455,910)	—	(2,770,160)
At 1st January 2002, as restated	582,235,893	63,406,274	14,006,400	47,126,915	(3,346,186)	703,429,296
Premium on shares issued net of expenses	12,587,400	—	—	—	—	12,587,400
Share of post-acquisition reserves of associated companies and jointly controlled entities	—	755,258	—	—	—	755,258
Exchanges differences on translation of the accounts of foreign subsidiaries, associated companies and jointly controlled entities	—	—	—	—	2,186,012	2,186,012
Deferred taxation effect on revaluation	—	—	—	48,000	—	48,000
Deficit on revaluation of investment properties	—	—	—	(321,141)	—	(321,141)
<b>At 31st December 2002</b>	<b>594,823,293</b>	<b>64,161,532</b>	<b>14,006,400</b>	<b>46,853,774</b>	<b>(1,160,174)</b>	<b>718,684,825</b>
Company and its subsidiaries	594,823,293	50,014,691	14,006,400	46,853,774	(5,288,867)	700,409,291
Associated companies	—	14,067,473	—	—	1,239,056	15,306,529
Jointly controlled entities	—	79,368	—	—	2,889,637	2,969,005
<b>At 31st December 2002</b>	<b>594,823,293</b>	<b>64,161,532</b>	<b>14,006,400</b>	<b>46,853,774</b>	<b>(1,160,174)</b>	<b>718,684,825</b>



## Notes to the Accounts

### 23. RESERVES (Cont'd)

	Share premium HK\$	* Capital reserve HK\$	Capital redemption reserve HK\$	Land and buildings revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Total HK\$
<b>Group (Cont'd)</b>						
At 1st January 2003, as previously reported	594,823,293	64,475,782	14,006,400	49,261,684	(1,160,174)	721,406,985
Effect of adopting SSAP12	—	(314,250)	—	(2,407,910)	—	(2,722,160)
At 1st January 2003, as restated	594,823,293	64,161,532	14,006,400	46,853,774	(1,160,174)	718,684,825
Premium on shares issued net of expenses	72,963	—	—	—	—	72,963
Share of post-acquisition reserves of a subsidiary, an associated company and a jointly controlled entity	—	(820)	—	—	18,737	17,917
Reversal of goodwill previously written off on disposal of an associate company	—	9,013,001	—	—	—	9,013,001
Exchanges differences on translation of the accounts of foreign subsidiaries, jointly controlled entities and associated companies	—	—	—	—	8,280,444	8,280,444
Transfer from retained profits	—	559,388	—	—	—	559,388
<b>At 31st December 2003</b>	<b>594,896,256</b>	<b>73,733,101</b>	<b>14,006,400</b>	<b>46,853,774</b>	<b>7,139,007</b>	<b>736,628,538</b>
Company and its subsidiaries	594,896,256	50,574,434	14,006,400	46,853,774	3,516,249	709,847,113
Associated companies	—	23,045,655	—	—	1,239,056	24,284,711
Jointly controlled entities	—	113,012	—	—	2,383,702	2,496,714
<b>At 31st December 2003</b>	<b>594,896,256</b>	<b>73,733,101</b>	<b>14,006,400</b>	<b>46,853,774</b>	<b>7,139,007</b>	<b>736,628,538</b>

\* Capital reserve includes goodwill/negative goodwill arising on acquisition of subsidiaries, associated companies and jointly controlled entities by the Company, its subsidiaries, associated companies and jointly controlled entities.

## Notes to the Accounts

### 23. RESERVES (Cont'd)

	Share premium HK\$	Capital reserve HK\$	Capital redemption reserve HK\$	Total HK\$
<b>Company</b>				
At 1st January 2002	582,235,893	2,103,163	14,006,400	598,345,456
Premium on shares issued net of expenses	12,587,400	—	—	12,587,400
At 31st December 2002	594,823,293	2,103,163	14,006,400	610,932,856
At 1st January 2003	594,823,293	2,103,163	14,006,400	610,932,856
Premium on shares issued net of expenses	72,963	—	—	72,963
At 31st December 2003	594,896,256	2,103,163	14,006,400	611,005,819

### 24. RETAINED PROFITS

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
At 1st January, as previously reported	203,375,194	171,416,059	55,230,913	76,449,111
Effect of adopting SSAP 12	3,527,584	3,133,890	—	—
At 1st January, as restated	206,902,778	174,549,949	55,230,913	76,449,111
Transfer to capital reserve	(559,388)	—	—	—
Profit/(loss) for the year	93,819,623	49,322,685	(10,872,003)	(4,248,342)
Final dividend paid	(11,733,237)	(16,969,856)	(11,733,237)	(16,969,856)
At 31st December	288,429,776	206,902,778	32,625,673	55,230,913
Representing:				
Final dividend	14,084,300	11,733,237	14,084,300	11,733,237
Other	274,345,476	195,169,541	18,541,373	43,497,676
At 31st December	288,429,776	206,902,778	32,625,673	55,230,913
Company and subsidiaries	97,177,503	63,424,478	32,625,673	55,230,913
Associated companies	77,389,971	47,508,259	—	—
Jointly controlled entities	113,862,302	95,970,041	—	—
At 31st December	288,429,776	206,902,778	32,625,673	55,230,913

## Notes to the Accounts

### 25. DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2002: 16%). Deferred taxation of overseas subsidiaries, associated companies and jointly controlled entities is calculated at the rates of taxation prevailing in the countries in which the Group operates.

The movement on the deferred tax liabilities is as follows:

	Group	
	2003 HK\$	2002 HK\$
At 1st January	1,108,376	1,269,320
Exchange differences	181,624	—
Charged/(credited) to profit and loss account (Note 6(b))	42,216	(112,944)
Taxation credited to reserve	—	(48,000)
At 31st December	1,332,216	1,108,376

The Group has unrecognised tax losses of HK\$34,077,000 (2002: HK\$34,001,000) to carry forward against future taxable income. This tax loss has no expiry date.

The movement in deferred tax liabilities during the year is as follows:

	Deferred tax liabilities Accelerated tax depreciation	
	2003 HK\$	2002 HK\$
At 1st January	1,108,376	1,269,320
Exchange differences	181,624	—
Charged/(credited) to profit and loss account	42,216	(112,944)
Credited to reserve	—	(48,000)
At 31st December	1,332,216	1,108,376

## Notes to the Accounts

### 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash outflow generated from operations

	2003 HK\$	2002 HK\$
Profit before taxation	107,509,441	61,810,367
Share of net profit of associated companies and jointly controlled entities	(85,489,482)	(68,603,198)
Interest income	(3,527,777)	(5,247,321)
Interest expenses on bank loans	1,882,046	262,113
Loss/(gain) on disposal of fixed assets	36,499	(34,271)
Gain on disposal of certain interest in an associated company	(6,001,759)	(118,851)
Gain on disposal of investment securities	(1,405,820)	(7,926,311)
Depreciation	8,488,518	10,498,929
Amortisation of trading right	163,764	163,763
Amortisation of goodwill on acquisition of partial interest in jointly controlled entities and acquisition of an associated company	515,618	226,631
Amortisation of goodwill on acquisition of subsidiaries	19,293,462	814,210
Amortisation of negative goodwill on acquisition of partial interest in a jointly controlled entity	(2,958,379)	(2,958,379)
Amortisation of negative goodwill on acquisition of a subsidiary	(219,912)	—
Dividend income from listed investments	(786,855)	(367,396)
Operating profit/(loss) before working capital changes	37,499,364	(11,479,714)
Increase in inventories	(1,102,578)	(166,865)
(Increase)/decrease in accounts receivable and prepayments	(159,514,361)	28,732,014
Increase in margin loans and advances	(56,216,460)	(14,995,144)
Increase in other investments	(1,894,883)	(2,305,814)
Increase/(decrease) in accounts payable and accruals	160,660,820	(45,037,820)
Net cash outflow generated from operations	(20,568,098)	(45,253,343)

## Notes to the Accounts

### 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (b) Analysis of changes in financing during the year

	Share capital		Minority interests		Bank loans		Dividend payable	
	including premium							
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
At 1st January	829,488,034	808,500,634	52,423,140	43,601,762	2,835,037	2,834,591	—	—
Exchange differences	—	—	1,957,423	499,668	1,531	446	—	—
Minority interests share								
of (losses)/profits	—	—	(2,518,174)	38,809	—	—	—	—
Acquisition of subsidiaries	—	—	21,179,778	1,062,955	23,471,792	—	—	—
New short term loans	—	—	—	—	120,000,000	—	—	—
Issue of shares for								
the acquisition of								
a subsidiary	—	21,000,000	—	—	—	—	—	—
Issue of shares	146,563	—	—	—	—	—	—	—
Reclassification from								
interest in an								
associated company	—	—	—	(650,927)	—	—	—	—
Dividend	—	—	(2,470,128)	—	—	—	11,733,237	16,969,856
Cash inflows/								
(outflows) from								
financing	—	(12,600)	12,030,038	7,870,873	—	—	(11,733,237)	(16,969,856)
At 31st December	829,634,597	829,488,034	82,602,077	52,423,140	146,308,360	2,835,037	—	—

#### (c) Acquisition of subsidiaries

On 4th July 2003, the Group acquired 100% equity interest in Leading Business Limited ("LBL") at cash consideration of HK\$12,100,097. LBL is a property holding company possess an office in Shenzhen.

On 22nd September 2003, the Group has subscribed for 1,000 ordinary shares of par value HK\$1 each of an associated company, China Assets Investment Management Limited ("CAIML"). The purchase consideration was in form of cash of HK\$1,500,000 in total. This subscription effectively increased the equity interests in CAIML from 30.9% to 65.45%, changed it from an associated company to a subsidiary of the Group.

On 12th December 2003, the Group acquired 100% equity interest in Yin Zin Company Limited ("Yin Zin") at cash consideration of HK\$11,700,000. Yin Zin effectively held 31.77% equity interest in two jointly controlled entities, Zhejiang Shaoxing Betung Instrument Limited and Zhejiang Shaohong Instrument Company Limited and collectively known as "Betung". After the acquisition, the Group's effective equity interests in Betung has changed from 40.84% to 72.61% and thus, changed from jointly controlled entities to subsidiaries.

## Notes to the Accounts

### 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (c) Acquisition of subsidiaries (Cont'd)

The aggregated net assets acquired and the details of purchase consideration are as follows:

	2003 HK\$	2002 HK\$
Net assets acquired:		
Fixed assets	43,480,547	667,244
Intangible assets	136,227	—
Investment securities	6,344,356	—
Investment in jointly controlled entity	—	3,734,395
Accounts receivable and prepayment	62,509,072	1,410,495
Inventories	54,701,149	—
Bank balances and cash	14,457,809	443,623
Trade and other payables	(67,960,541)	(5,665,140)
Taxation	(2,194,414)	—
Bank loans	(23,471,792)	—
Minority interests	(21,179,778)	(1,062,955)
	66,822,635	(472,338)
Less: Interests originally held by the Group		
An associated company	(966,047)	—
A jointly controlled entity	(28,142,961)	—
	37,713,627	(472,338)
(Negative goodwill)/Goodwill	(12,413,530)	48,852,571
	25,300,097	48,380,233
	2003 HK\$	2002 HK\$
Satisfied by:		
Cash	25,300,097	10,210,353
Set off of loan and advances and other receivables	—	17,169,880
Shares	—	21,000,000
	25,300,097	48,380,233

## Notes to the Accounts

### 26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

#### (c) Acquisition of subsidiaries (Cont'd)

Analysis of the net cash outflow in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$	2002 HK\$
Bank balances and cash acquired	14,457,809	443,623
Cash consideration	(25,300,097)	(10,210,353)
Net cash outflow in respect of the acquisition of subsidiaries	<b>(10,842,288)</b>	<b>(9,766,730)</b>

The subsidiaries acquired during the year had immaterial contributions to the turnover and the consolidated profit after taxation of the Group. The net assets as at 31st December 2003 in respect of subsidiaries acquired during the year amounted to HK\$87,721,864.

### 27. BANK BALANCES AND BANKING FACILITIES

- (a) Fixed deposits of HK\$15 million (2002: HK\$15 million) as well as properties of the Group with an aggregate net book value of HK\$102,196,917 (2002: HK\$93,045,999) as at 31st December 2003 were pledged as securities against bank loans and general banking facilities amounting to HK\$129 million (2002: HK\$120 million) granted to the Group. At the balance sheet date, HK\$54,717,000 of such facilities was utilised (2002: Nil).
- (b) Included in the bank balances and cash of the Group are Renminbi deposits and cash in the Chinese Mainland of HK\$70,736,612 (2002: HK\$37,325,557). Renminbi is not a freely convertible currency.

### 28. CONTINGENT LIABILITIES

	Group		Company	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Guarantee for bank overdraft of a subsidiary	—	—	50,000,000	50,000,000
Guarantee for bank loans of a jointly controlled entity	—	2,830,200	—	—
	—	2,830,200	50,000,000	50,000,000

## Notes to the Accounts

### 29. COMMITMENTS

#### (a) Capital commitments for land and buildings

	Group	
	2003 HK\$	2002 HK\$
Contracted but not provided for	11,567,770	14,531,923
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	25,050,129	11,862,317

The Company did not have any material capital commitments.

#### (b) Commitments under operating leases

At 31st December 2003, 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	
	2003 HK\$	2002 HK\$	2003 HK\$	2002 HK\$
Not later than one year	3,790,668	3,288,539	—	—
Later than one year but not later than five years	4,613,070	2,179,628	—	—
	8,403,738	5,468,167	—	—

### 30. RELATED PARTY TRANSACTIONS

China Assets Investment Management Limited ("CAIML") was an associated company of the Company since 2nd May 2001. Additional 34.55% shareholding was acquired on 22nd September 2003 and total shareholding of CAIML become 65.45%.

Pursuant to a Management Agreement dated 28th March 1991 and subsequently amended on 8th April 1992, CAIML is entitled to receive management fee from China Assets (Holdings) Limited ("CAHL") which is an associated company of the Company.

Mr. Lao Yuan Yi, Mr. Yeung Wai Kin, Mr. Shi Yucheng, Charlie and Mr. Wang Jun Yan are directors of CAIML and CAHL. Mr. Tsui Che Yin, Frank, is a shareholder of CAIML and a non-executive director of CAHL.

During the year, CAIML received a management fee of US\$1,055,508 (2002: US\$1,232,363) from CAHL, a related company. The transaction was carried out in the normal course of business.

### 31. APPROVAL OF ACCOUNTS

The accounts were approved by the board of Directors on 13th April 2004.