

NOTES TO THE ACCOUNTS

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st December. 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 goodwill or capital reserve which was not previously charged or recognized in the consolidated profit and loss account.

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

(b) Investments in subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of the voting power and issued share capital or controls the composition of the board of directors.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision, if necessary, for any permanent diminution in value. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(c) 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.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(c) Associated companies (Cont'd)

In the Company's balance sheet the investments in associated companies are stated at cost less provision, if necessary, for any permanent diminution in value. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(d) 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.

A jointly controlled entity is a joint venture which involves the establishment of a corporation, partnership or other entity in which each venturer has an interest. The jointly controlled entity operates in the same way as other enterprises, except that a contractual arrangement between the venturers establishes joint control over the economic activity of the entity.

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.

In the Company's balance sheet the investments in jointly controlled entities are stated at cost less provision, if necessary, for any permanent diminution in value. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

(e) Goodwill or discount arising on consolidation

Goodwill represents the excess of purchase consideration over the fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired. Discount represents the excess of fair values ascribed to the net assets of subsidiaries, associated companies and jointly controlled entities acquired over the purchase consideration. Any goodwill or discount arising on consolidation is taken to reserves in the year of acquisition.

(f) Revenue

Revenue in respect of sales of goods is recognised on the transfer of ownership, which generally coincides with the time of shipment or delivery.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(f) Revenue (Cont'd)**

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

Revenue in respect of share dealing is recognised in the accounts once the transaction outcome can be foreseen with reasonable certainty.

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

Interest income is recognised on a time apportioned basis, based on the principal amounts outstanding at the applicable interest rates.

Rental income is recognised on an accrual basis.

(g) 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 greater than 20 years are valued 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.

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

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) 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 72 of the Statement of Standard Accounting Practices ("SSAP") No. 17 issued by the Hong Kong Society of Accountants 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 any provisions required to reflect recoverable amounts.

(iv) Construction-in-progress

Construction-in-progress is stated at cost comprises factories and office buildings under construction, and production plant and machinery and other fixed assets under installation. No depreciation and amortization 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 leases while other tangible fixed assets are depreciated at rates sufficient to write off their costs, taking into account the estimated residual value of the assets concerned, over their estimated useful lives on a straight line basis. The principal annual rates are as follows.

Buildings	Over the shorter of the term of the leases or 20 to 40 years
Furniture, fixtures and other equipment	15% – 20%
Plant and machinery	10%
Motor vehicles	20%
Trucks	12.5%

(vi) Cost of restoring and improving fixed assets

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

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)**(g) Fixed assets (Cont'd)***(vii) Impairment of fixed assets*

The carrying amounts of fixed assets are reviewed regularly to assess whether their recoverable amounts have declined below their carrying amounts. Expected future cash flows have been discounted in determining the recoverable amount.

(viii) Gain or loss on disposal of fixed assets

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sale proceeds and the carrying amount of the relevant asset, and is recognized 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.

(h) Other investments

Listed and unlisted investments held for long term are stated at cost less provision for any permanent diminution in value.

Listed or otherwise marketable investments held on a short term basis for trading purposes are stated at their market value at the balance sheet date. Changes in value are dealt with in the profit and loss account.

Other short term investments are stated at the lower of cost and estimated net realizable value.

(i) Inventories

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

(j) Accounts receivable

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

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

1. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Deferred taxation

Deferred taxation is 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 asset is expected to be payable or receivable in the foreseeable future.

(l) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at the 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 accounts of overseas subsidiaries, associated companies and jointly controlled entities expressed in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The net exchange difference arising is dealt with as a movement in the exchange fluctuation reserve.

(m) Retirement benefit costs

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 schemes prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

2. REVENUE AND TURNOVER

	Group	
	1998 HK\$	1997 HK\$
Sales of goods	527,492,089	—
Operating income from container transportation and freight forwarding services	46,373,630	55,884,524
Brokerage and commission	5,081,262	4,836,650
Dividend income	2,221,693	3,428,314
Proceeds from share dealing	307,780,715	531,343,844
Interest income	17,156,569	26,922,754
Rental income from investment properties	2,628,644	2,205,508
Management fee received	196,670	1,843,844
Consultancy service income	5,077,230	9,660,660
Total Turnover and Revenue	<u>914,008,502</u>	<u>636,126,098</u>

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

3(a). OPERATING LOSS

	Group	
	1998	1997
	<i>HK\$</i>	<i>HK\$</i>

Operating loss is stated after crediting and charging the following:–

Crediting:–

Dividends from listed investments	1,330,559	1,665,833
Dividends from unlisted investments	752,493	594,837
Dividends from unit trust	138,641	1,167,644
Unclaimed dividends forfeited	591,142	297,329
Gain on foreign exchange contract	1,779,510	2,706,200

Charging:–

Cost of inventories sold	403,950,100	–
Direct expenses in respect of container transportation and freight forwarding services	43,662,200	46,988,100
Auditors' remuneration	1,350,708	1,028,852
current year	1,042,574	922,663
underprovision in prior year	308,134	106,189
Depreciation	19,751,411	12,674,388
Exchange loss	625,413	131,535
Operating lease – land and buildings	2,343,168	1,645,622
Interest on bank loans and overdrafts wholly repayable within five years	10,342,943	12,580,542

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

3(b). EXCEPTIONAL ITEMS

	Group	
	1998	1997
	<i>HK\$</i>	<i>HK\$</i>
Reversal of provision for long term unlisted investments	–	20,613,025
Provision for permanent diminution in value of long term		
– listed investments	(19,325,399)	–
– unlisted investments	(57,111,914)	–
Provision for minority interests (<i>see note (i) below</i>)	(9,037,738)	–
Provision for deposit paid on purchase of property (<i>see note (ii) below</i>)	(22,341,000)	–
Provision for loan to China Venturetech Investment Corporation (<i>see note (iii) below</i>)	(21,762,000)	–
Losses arising from trading and holding of short term listed investments	(23,072,330)	(39,275,213)
	<u>(152,650,381)</u>	<u>(18,662,188)</u>

Note:–

- (i) A minority shareholder of a subsidiary of the Group is unable to discharge its guarantee on making up the losses incurred in that subsidiary and therefore full provision is made on the guarantee and minority interests attributable to this minority shareholder.
- (ii) In 1997, the Group entered into an agreement to purchase a new office from a third party (the "Vendor") at a consideration of HK\$223,410,000 and paid a 10% deposit of HK\$22,341,000. Due to a legal dispute on the relevant sales and purchase agreement, the transaction failed to complete and the Vendor refused to refund the deposit. Legal proceedings were initiated by the Group to recover the deposit and related expenses. However, according to a recent opinion from the Group's legal advisors, the chance of recovery of the deposit is uncertain and therefore for the sake of prudence, full provision has been made on the deposit.
- (iii) In January 1998, the Group granted an unsecured loan of RMB23.4 million (i.e. HK\$21.8 million) to China Venturetech Investment Corporation ("CVIC"), a 50% shareholder of International Enterprises Investment Company Limited which is a substantial shareholder of the Company. In June 1998, CVIC was closed by the People's Bank of China and therefore full provision has been made on the loan.

4. TAXATION

Hong Kong profits tax has been provided at the rate of 16% (1997: 16.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been provided at the rates of taxation prevailing in the countries in which the Group operates on the estimated assessable profit for the year.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

4. TAXATION (Cont'd)

(a) The amount of taxation in the consolidated profit and loss account represents:-

	Group	
	1998	1997
	HK\$	HK\$
Hong Kong profits tax		
Overprovision in previous years	(388,316)	-
Overseas taxation		
Current	4,140,252	390,634
Share of taxation attributable to:		
Associated companies	4,259,720	2,348,402
Jointly controlled entities	313,724	1,380,544
	8,325,380	4,119,580

(b) The amounts of taxation in the balance sheets represent:-

	Group		Company	
	1998	1997	1998	1997
	HK\$	HK\$	HK\$	HK\$
Recoverable				
Hong Kong	29,102	11,199	-	-
Overseas	19	36	-	-
	29,121	11,235	-	-
Payable				
Hong Kong	29,450	525,504	-	-
Overseas	15,961,493	18,531,866	-	-
	15,990,943	19,057,370	-	-

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

4. TAXATION (Cont'd)

- (c) No deferred tax asset has been recognized in the accounts as the directors are uncertain whether this asset will crystallize. The major deferred tax assets and liabilities not recognized in these accounts are as follows:–

	Group	
	1998	1997
	HK\$'000	HK\$'000
Accelerated depreciation allowances	(702)	(332)
Tax losses not yet utilised	19,785	17,082
	<u>19,083</u>	<u>16,750</u>

The surpluses arising from the revaluation of the Group's land and buildings, investment properties and long term investments do not constitute timing differences.

5. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the loss of HK\$143,029,322 (1997: profit of HK\$16,893,743) attributable to the shareholders of the Company is a loss of HK\$89,546,707 (1997: profit of HK\$12,048,398), which is dealt with in the Company's own accounts.

6. (LOSS)/EARNINGS PER ORDINARY SHARE

The calculation of basic (loss)/earnings per ordinary share is based on the loss attributable to shareholders of HK\$143,029,322 (1997: profit of HK\$16,893,743) and 1,027,738,205 (1997: on the weighted average of 831,801,303) shares in issue during the year. Since the exercise prices of the Company's outstanding share options and warrants are much higher than the fair value per share of the Company during the year ended 31st December 1998, diluted loss per share is not shown as potential ordinary shares are anti-dilutive. No figure for fully diluted earnings per share for the year ended 31st December 1997 is shown as the dilution from the unexercised options and warrants is not material.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

7. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

- (a) The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:–

	Group	
	1998	1997
	<i>HK\$'000</i>	<i>HK\$'000</i>
As directors		
– executive	240	660
– non-executive	480	360
For management		
– basic salaries, housing allowances, other allowances and benefits in kind	7,958	3,592
– pension contributions	359	327
	9,037	4,939

- (b) Certain directors of the Company have been granted options to acquire shares of the Company as follows:–

Name of director	Number of ordinary shares	
	granted during the year (i)	*At the end of the year
Mr. LAO Yuan Yi	1,856,000	24,698,000 (ii)
Mr. CHOW Fu Kee, Felix	–	9,148,800 (iii)
Mr. YEUNG Wai Kin	7,500,000	13,895,864 (iv)
Mr. XIN Shulin, Steve	6,464,000	12,337,620 (iv)
Mr. HU Yi Ming	2,300,000	3,300,000 (v)

* These represent the options granted in the current and prior years which have not been exercised as at the year end date.

(i) The options are exercisable at HK\$0.283 per share with an expiry date on 15th July 2008.

(ii) The options are exercisable at HK\$0.283 to HK\$0.816 per share with expiry dates between 7th October 2005 and 15th July 2008.

(iii) The options are exercisable at HK\$0.318 to HK\$0.453 per share with expiry dates between 9th February 2005 and 15th July 2006.

(iv) The options are exercisable at HK\$0.283 to HK\$0.816 per share with expiry dates between 9th February 2005 and 15th July 2008.

(v) The options are exercisable at HK\$0.283 to HK\$0.816 per share with expiry dates between 12th November 2007 and 15th July 2008.

(vi) During the year, no option had been exercised by the directors.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

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

- (c) The number of directors of the Company whose emoluments fall within the following bands are as follows:-

Directors' emoluments HK\$	Number of Directors	
	1998	1997
0 – 1,000,000	8	6
1,000,001 – 1,500,000	1	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	1	1
2,500,001 – 3,000,000	1	–
	<u>12</u>	<u>8</u>

No directors have waived emoluments in respect of the years ended 31st December 1998 and 1997.

Among the five highest paid individuals of the Group, four (1997: two) are executive directors of the Company whose emoluments are disclosed in note 7(a) above. The emoluments of the other individual (1997: three) are as follows:-

	Group	
	1998 HK\$'000	1997 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	1,190	5,742
Pension contributions	51	175
	<u>1,241</u>	<u>5,917</u>

The emoluments of the above senior management who are not directors fall within the following bands as follows:-

Emoluments HK\$	Number of individuals	
	1998	1997
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	–	1
	<u>1</u>	<u>3</u>

NOTES TO THE ACCOUNTS (Cont'd)*31st December 1998***8. RETIREMENT BENEFIT COSTS**

- (a) The Group operates mainly a defined contribution provident fund for all qualified employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The cost charge of the provident fund represents contributions payable to the fund by the Group at rates specified in the rules of the scheme. The fund charged to the profit and loss account for the year ended 31st December 1998 was HK\$701,722 (1997: HK\$874,883).

Forfeited contributions made by the Group on behalf of employees who have left the provident fund prior to vesting fully in such contributions were used by the Group to reduce the existing level of contributions. During 1998, the total amount of forfeited contributions, which arose upon employees leaving the provident fund scheme and which has already been used to reduce the Group's contribution was HK\$188,539 (1997: HK\$83,163). It has lowered the total net contribution of provident fund to HK\$513,183 (1997: HK\$791,720). There is HK\$9,990 (1997: Nil) outstanding balance as at the balance sheet date available to reduce the contributions payable in the future year.

- (b) Subsidiaries of the Group in Chinese Mainland ("PRC") participate in the employees' defined contribution pension scheme of the PRC government. The implementation of such scheme by the PRC government is an administrative measure to provide pensions for retired employees. Pursuant to the relevant provisions, the subsidiaries make a monthly contribution of 17% to 30% of the entire payroll of its staff while the employees need to contribute 4% of their payroll. In 1998, the total amount paid by the subsidiaries in this respect amounted to HK\$3,797,281 (1997: HK\$1,931,610). The provider of pension payments has been paying monthly pension to the retired employees of the subsidiaries. In 1998, there was no contribution forfeited by the employer for employees who left the scheme prior to vesting fully in such contributions. There is no outstanding balance as at the balance sheet date available to reduce the contributions payable in the future year.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

9. FIXED ASSETS

	Group								
	Investment properties		Land and buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction in progress	Total
	Long term lease in Hong Kong	Long term lease outside Hong Kong	Long term lease in Hong Kong	Medium term lease outside Hong Kong					
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
Cost or valuation									
At 1st January 1998	8,700,000	5,646,553	97,484,671	61,720,826	16,239,038	33,405,984	65,432,938	16,956,307	305,586,317
Additions	-	5,395,768	-	11,368,180	4,801,035	8,871,301	2,128,424	22,142,969	54,707,677
Reclassification	-	-	-	21,699,877	-	11,262,328	1,960,868	(34,923,073)	-
Adjustment on revaluation	(2,700,000)	(17,253)	-	-	-	-	-	-	(2,717,253)
Disposals	-	-	-	(358,731)	(1,443,383)	(409,449)	(10,398,251)	-	(12,609,814)
At 31st December 1998	6,000,000	11,025,068	97,484,671	94,430,152	19,596,690	53,130,164	59,123,979	4,176,203	344,966,927
Aggregate depreciation									
At 1st January 1998	-	-	3,811,420	6,920,108	8,109,533	6,262,015	28,991,166	-	54,094,242
Charge for the year	-	-	1,271,580	3,878,297	2,823,520	4,215,520	7,562,494	-	19,751,411
Disposals	-	-	-	(83,168)	(1,025,446)	(115,207)	(6,290,005)	-	(7,513,826)
At 31st December 1998	-	-	5,083,000	10,715,237	9,907,607	10,362,328	30,263,655	-	66,331,827
Net book value									
At 31st December 1998	6,000,000	11,025,068	92,401,671	83,714,915	9,689,083	42,767,836	28,860,324	4,176,203	278,635,100
At 31st December 1997	8,700,000	5,646,553	93,673,251	54,800,718	8,129,505	27,143,969	36,441,772	16,956,307	251,492,075
The analysis at cost or valuation at 31st December 1998 of the above assets is as follows:-									
At cost	-	-	844,231	94,430,152	19,596,690	53,130,164	59,123,979	4,176,203	231,301,419
At professional valuation									
- 1994	-	-	96,640,440	-	-	-	-	-	96,640,440
- 1998	6,000,000	11,025,068	-	-	-	-	-	-	17,025,068
	6,000,000	11,025,068	97,484,671	94,430,152	19,596,690	53,130,164	59,123,979	4,176,203	344,966,927

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

9. FIXED ASSETS (Cont'd)

Investment properties were revalued at 31st December 1998 on the basis of their open market values by Chung, Chan & Associates, an independent firm of chartered surveyors.

The carrying amount of the land and buildings in Hong Kong under long lease would have been HK\$45,519,881 (1997: HK\$46,170,910) had they been stated at cost less accumulated depreciation.

10. INVESTMENTS IN SUBSIDIARIES

	Company	
	1998	1997
	HK\$	HK\$
Unlisted shares, at cost	67,690,358	67,690,348
Loans to subsidiaries	799,432,423	778,438,338
<i>Less:</i> Provision for diminution in value	(140,792,277)	(73,311,714)
	<u>726,330,504</u>	<u>772,816,972</u>

The following is a list of principal subsidiaries at 31st December 1998 (see note (a) below):—

Name	Place of incorporation <i>(see note (b) below)</i>	Particulars of issued share capital /registered capital	Effective interest held		Principal activities
			1998	1997	
Shares held directly:—					
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares of HK\$1 each	100%	100%	Property investment
First Shanghai Management Services Limited	Hong Kong	1,200,000 ordinary shares of HK\$1 each	100%	100%	Agency, management and secretarial services
First Shanghai Futures Limited	Hong Kong	5,000,000 ordinary shares of HK\$1 each	100%	100%	Financial futures broking
First Shanghai Capital Limited	Hong Kong	30,000,000 ordinary shares of HK\$1 each	100%	100%	Corporate finance

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

10. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation (see note (b) below)	Particulars of issued share capital /registered capital	Effective interest held		Principal activities
			1998	1997	
Shares held directly:- (Cont'd)					
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 Assets Management Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Consultancy services
*First Shanghai Securities Investment Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Share investment
*UAT Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment holding
*Asian & Pacific Commercial Bank Limited		500,000 ordinary shares of A\$1 each	100%	100%	Banking services
*P.I. Investments Australia Pty. Limited	Australia	2,000,000 ordinary shares of A\$1 each	100%	100%	Share investment
*First Shanghai Finance Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Money lending
Shares held indirectly:-					
CVIC International Container Transportation Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Investment holding
*First Shanghai Child Products Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
*Fresh Start Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	80%	80%	Share investment

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

10. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Name	Place of incorporation (see note (b) below)	Particulars of issued share capital /registered capital	Effective interest held		Principal activities
			1998	1997	
Shares held indirectly:- (Cont'd)					
*China Tiger Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Share investment
*Goodbaby Child Products Company Limited ("Goodbaby") (see note (c) below)	Chinese Mainland	RMB115,969,492	66.01%	66.01%	Production of baby and infant items
*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 ("ZCIC") (see note (d) below)	Chinese Mainland	US\$7,000,000	54%	54%	Container transportation and freight forwarding
*Atlas Securities Pty. Limited	Australia	2 ordinary shares of A\$1 each	100%	100%	Share investment
*Public Holdings (Australia) Limited (Listed in Sydney, Australia)	Australia	3,744,750 ordinary shares of A\$0.5 each	74.2%	74.2%	Securities investment
*P.H.A. Investments Pty. Limited	Australia	60,000 ordinary shares of A\$2 each	74.2%	74.2%	Property investment
*P.H.A. Trading Pty. Limited	Australia	2 ordinary shares of A\$0.5 each	74.2%	74.2%	Securities investment
China C&Y International Holdings Limited	Cayman Islands	160,000 ordinary shares of US\$1 each	100%	100%	Investment holding and share investment

* PricewaterhouseCoopers, Hong Kong are not the statutory auditors of these companies. The aggregate net assets and turnover of these companies amounted to approximately 71% and 97% of the Group's net assets and turnover respectively.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

10. INVESTMENTS IN SUBSIDIARIES (Cont'd)

Note:—

- (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) Goodbaby was established as an equity joint venture in Chinese Mainland in November 1994 for a term of 30 years.
- (d) ZCIC was established as an equity joint venture in Chinese Mainland in February 1994 for a term of 20 years.

11. INVESTMENTS IN ASSOCIATED COMPANIES

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Unlisted shares, at cost	—	—	—	19,566,410
Share of assets other than goodwill	246,407,626	226,958,466	—	—
Loans to associated companies	—	74,245,640	—	74,245,640
	246,407,626	301,204,106	—	93,812,050
Investments, at cost:				
Shares listed in				
Hong Kong	210,647,810	189,892,525		
Shares listed overseas	—	24,368,185		
Listed shares	210,647,810	214,260,710		
Unlisted shares	—	19,566,410		
	210,647,810	233,827,120		
Market value of listed shares	136,616,154	145,592,736		

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

11. INVESTMENTS IN ASSOCIATED COMPANIES (Cont'd)

The following is a list of the associated companies directly held by the Group at 31st December 1998:

Name	Place of incorporation	Particulars of issued share capital	Effective interests held		Principal activities
			1998	1997	
RBI Holdings Limited ("RBI") (see note (a) below)	Bermuda	340,061,000 ordinary shares of HK\$0.1 each	24.8%	22%	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	27%	20%	Investment holding

Note:—

- (a) RBI and China Assets are companies listed on The Stock Exchange of Hong Kong Limited.
- (b) Additional information in respect of the Group's major associated companies is given as follows:—

RBI

	1998 HK\$'000	1997 HK\$'000
Profit and Loss account		
Turnover	506,037	462,351
Depreciation charge	35,302	27,798
Profit before taxation	78,576	93,121
Group's share of profits before taxation	19,251	10,208
Balance sheet		
Tangible assets	456,482	441,622
Liabilities	(85,063)	(109,586)
Net tangible assets	371,419	332,036

China Assets

	1998 HK\$'000	1997 HK\$'000
Profit and Loss account		
Turnover	24,398	21,203
Depreciation charge	—	—
(Loss)/profit before taxation	(104,796)	46,621
Group's share of losses before taxation	(22,735)	(4,968)
Balance sheet		
Tangible assets	581,344	608,777
Liabilities	(906)	(8,579)
Net tangible assets	580,438	600,198

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Share of net assets other than goodwill	84,680,849	62,800,611	–	–
Loan to jointly controlled entities	8,919,499	5,579,347	8,919,499	5,579,347
	93,600,348	68,379,958	8,919,499	5,579,347
Unlisted investments, at cost	91,790,586	68,533,648	–	–

The following is a list of jointly controlled entities held by the Group at 31st December 1998:–

Name	Place of incorporation and operation	Principal activities	Effective interest in ownership/voting power/profit sharing	
			1998	1997
Zhejiang Shaoxing Betung Instrument Company Limited (“Shaoxing Betung”) (see note (a) below)	Chinese Mainland	Manufacture of motor vehicle meters and components	40.8%	40.8%
Kunshan Huadong International Cargo Distribution Services Company Limited (“Kunshan”) (see note (b) below)	Chinese Mainland	Cargo distribution	50%	50%
Combi-Goodbaby Child’s Products Company Limited (“Combi”) (see note (c) below)	Chinese Mainland	Manufacture of baby and infant items	33%	33%

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES (Cont'd)

Name	Place of incorporation and operation	Principal activities	Effective interest in ownership/voting power/profit sharing	
			1998	1997
Goodbaby Paragon Hygienic Products Company Limited ("Goodbaby Paragon") <i>(see note (d) below)</i>	Chinese Mainland	Production of diapers and related hygienic products	30%	–

- (a) Shaoxing Betung was established as an equity joint venture in Chinese Mainland in December 1993 for a term of 30 years.
- (b) Kunshan was established as an equity joint venture in Chinese Mainland in November 1997 for a term of 30 years.
- (c) Combi was established as an equity joint venture in Chinese Mainland in December 1995 for a term of 25 years. Combi is a jointly controlled entity and is 50% held by Goodbaby.
- (d) Goodbaby Paragon was established as an equity joint venture in Chinese Mainland in December 1997 for a term of 50 years.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

13. OTHER INVESTMENTS – LONG TERM

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Listed shares, bonds and unit trusts	(a) 34,691,398	55,759,868	767,136	699,702
Unlisted investments	(b) 58,230,158	116,378,235	51,610,457	67,129,082
	92,921,556	172,138,103	52,377,593	67,828,784
(a) Listed shares, bonds and unit trusts				
Listed shares				
– local, at cost	–	30,904,931	–	–
<i>less: provision</i>	–	(11,734,878)	–	–
	–	19,170,053	–	–
– overseas, at cost	67,245,818	52,845,493	222,082	222,527
<i>less: provision</i>	(34,326,695)	(17,873,783)	–	–
	32,919,123	34,971,710	222,082	222,527
Listed bonds and unit trusts				
– overseas, at cost	1,772,275	1,618,105	545,054	477,175
	34,691,398	55,759,868	767,136	699,702
(b) Unlisted investments				
– shares, at cost	82,695,726	82,700,264	193	193
<i>less: provision</i>	(76,075,832)	(33,450,918)	–	–
	6,619,894	49,249,346	193	193
– loan (<i>see note below</i>)	66,097,264	67,128,889	66,097,264	67,128,889
<i>less: provision</i>	(14,487,000)	–	(14,487,000)	–
	51,610,264	67,128,889	51,610,264	67,128,889
	58,230,158	116,378,235	51,610,457	67,129,082

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

13. OTHER INVESTMENTS – LONG TERM (Cont'd)*Note:–*

The Company has advanced HK\$66,097,264 (1997: HK\$67,128,889) to Shenyin Wanguo Holdings (BVI) Limited (“SWH”). The advances were made in proportion to the Company’s shareholding in SWH (i.e. 18.66%). One of the shareholders of SWH is Shenyin & Wanguo Securities Co., Ltd. (“SWS”). SWS has a 50% interest in International Enterprises Investment Co. Ltd., a substantial shareholder of the Company. The advances made along with those made by the other shareholders of SWH are interest free, unsecured and not repayable within the next twelve months from the balance sheet date. Provision of HK\$14,487,000 was made against the loan in 1998.

The principal activity of SWH is the holding of a 54% equity interest in Shenyin Wanguo (H.K.) Limited, a company listed on The Stock Exchange of Hong Kong Limited.

(c) Market value of listed shares, bonds and unit trusts

	Group		Company	
	1998	1997	1998	1997
	HK\$	HK\$	HK\$	HK\$
Listed shares				
– local	–	19,170,053	–	–
– overseas	36,087,849	36,445,269	222,082	222,527
	36,087,849	55,615,322	222,082	222,527
Listed bonds and unit trusts				
– overseas	1,772,275	1,618,105	545,054	477,175

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

14. CURRENT ASSETS

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Inventories (note 15)	65,328,865	70,475,224	–	–
Other investments (note 16)	15,701,411	37,829,747	–	–
Loans and advances	4,121,368	38,668,020	–	–
Accounts receivable and prepayments	259,672,085	232,653,795	18,508,242	4,308,806
Tax recoverable (note 4 (b))	29,121	11,235	–	–
Deposits with a banking subsidiary	–	–	9,261,035	9,134,484
Bank balances and cash (see note below)	205,084,843	228,132,784	80,767,809	109,438,572
	549,937,693	607,770,805	108,537,086	122,881,862

Note: As at 31st December 1998, included in the bank balances and cash of the Company are current and saving account balances of RMB14 million equivalent to HK\$12,616,332 (1997: HK\$94,860,000) placed in the banks in Chinese Mainland.

15. INVENTORIES

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Raw materials	30,348,053	17,603,436	–	–
Work in progress	4,408,258	5,168,081	–	–
Finished goods	30,572,554	47,703,707	–	–
	65,328,865	70,475,224	–	–

At 31st December 1998, the carrying amount of inventories that are carried at net realisable value amounted to HK\$65,328,865 (1997: HK\$70,475,224).

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

16. OTHER INVESTMENTS – CURRENT ASSETS

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Listed investments				
At market value				
Listed shares – overseas	1,944,278	5,674	–	–
Listed shares – Hong Kong	13,757,133	37,824,073	–	–
	15,701,411	37,829,747	–	–

17. CURRENT LIABILITIES

	Group		Company	
	1998 HK\$	1997 HK\$	1998 HK\$	1997 HK\$
Due to subsidiaries	–	–	77,460,848	51,835,300
Accounts payable, accruals and deferred income	214,972,626	199,352,272	4,598,254	4,158,653
Taxation (<i>note 4(b)</i>)	15,990,943	19,057,370	–	–
Proposed dividend	–	10,277,382	–	10,277,382
Short term bank loans				
Unsecured	–	92,994,000	–	92,994,000
Secured (<i>note 24</i>)	98,084,884	35,610,461	–	–
Bank overdrafts, secured (<i>note 24</i>)	–	1,393	–	1,393
	329,048,453	357,292,878	82,059,102	159,266,728

18. SHARE CAPITAL

	1998 HK\$	1997 HK\$
<i>Authorized</i>		
2,000,000,000 ordinary shares of HK\$0.20 each	400,000,000	400,000,000
<i>Issued and fully paid</i>		
1,027,738,205 ordinary shares of HK\$0.20 each	205,547,641	205,547,641

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

18. SHARE CAPITAL (Cont'd)

At 31st December 1998, the Company had outstanding warrants of 205,545,759 units. The warrants will entitle the warrant holders to subscribe for fully-paid new shares at an initial subscription price of HK\$1.50 per share. The subscription rights attaching to the warrants are exercisable between 18th December 1997 and 17th December 1999.

If the warrants were exercised in full, it would result in the issue of not more than 205,545,759 new shares at a maximum subscription monies of approximately HK\$308,318,639.

19. RESERVES

	Share premium HK\$	Capital reserve HK\$	Capital redemption reserve HK\$	Investment properties revaluation reserve HK\$	Land and buildings revaluation reserve HK\$	Exchange fluctuation reserve HK\$	Total HK\$
Company							
At 1st January and 31st December 1998	522,878,613	2,103,163	10,171,200	-	-	-	535,152,976
Group							
At 1st January 1998	522,878,613	6,937,147	10,171,200	3,252,146	49,582,825	(2,408,132)	590,413,799
Surplus on further acquisition of associated companies	-	36,877,558	-	-	-	-	36,877,558
Deficit on revaluation	-	-	-	(2,287,950)	-	-	(2,287,950)
Exchange deficit on translation of the accounts of foreign subsidiaries	-	-	-	-	-	(1,978,507)	(1,978,507)
At 31st December 1998	522,878,613	43,814,705	10,171,200	964,196	49,582,825	(4,386,639)	623,024,900
Balance at 31st December 1998 comprises:-							
Company and its subsidiaries	522,878,613	31,674,502	10,171,200	964,196	49,582,825	(4,386,639)	610,884,697
Associated companies	-	12,283,977	-	-	-	-	12,283,977
Jointly controlled entities	-	(143,774)	-	-	-	-	(143,774)
	522,878,613	43,814,705	10,171,200	964,196	49,582,825	(4,386,639)	623,024,900

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

20. RETAINED PROFITS

	Group		Company	
	1998	1997	1998	1997
	HK\$	HK\$	HK\$	HK\$
Company and its subsidiaries	8,256,969	133,216,818	73,404,963	162,951,670
Associated companies	2,436,032	5,699,012	–	–
Jointly controlled entities	(586,493)	14,220,000	–	–
	10,106,508	153,135,830	73,404,963	162,951,670

Distributable reserves of the Company at 31st December 1998, calculated under section 79B of the Companies Ordinance, amounted to HK\$73,404,963 (1997: HK\$162,951,670).

21. LONG TERM BANK LOANS

	Group		Company	
	1998	1997	1998	1997
	HK\$	HK\$	HK\$	HK\$
Bank loans – secured (note 24)				
– Amount repayable in the second year	–	2,629,485	–	–

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

22. RECONCILIATION OF (LOSS)/PROFIT BEFORE TAXATION TO NET CASH INFLOW/(OUTFLOW) FROM CONTINUING OPERATING ACTIVITIES

	1998	1997
	<i>HK\$</i>	<i>HK\$</i>
(Loss)/profit before taxation	(124,401,280)	18,838,535
Share of net loss/(profit) of associated companies and jointly controlled entities	2,412,751	(20,571,827)
Interest income	(17,156,569)	(26,922,754)
Interest expenses on bank loans and overdrafts	10,342,943	12,580,542
Loss on disposal of fixed assets	5,095,988	313,539
Profit on disposal of associated companies	(1,703,779)	–
Proceeds received from liquidation of a subsidiary	–	(655,645)
Depreciation	19,751,411	12,674,388
Revaluation deficit on investment properties	429,304	–
Dividend income from listed investments	(1,330,559)	(1,665,833)
Reversal of provision for diminution in value of other investments	–	(20,613,025)
Loss/(gain) on disposal of other investments	2,357,287	(12,564,230)
(Increase)/decrease in accounts receivable and prepayments	(46,417,468)	20,432,069
Provision for deposit paid on purchase of property	22,341,000	–
Decrease in bank balance – trust accounts	–	448,397
Decrease/(increase) in loans and advances	9,784,652	(38,668,020)
Provision on loans granted	24,762,000	–
Decrease in fixed deposit	–	46,500,000
Decrease/(increase) in short term other investments	22,128,336	(11,186,272)
Dividends received from an associated company	–	(5,730,933)
Increase in accounts payable and accruals	16,179,844	9,894,681
Provision for permanent diminution in value of long term other investments	76,437,313	12,884,014
Provision for minority interests	9,037,738	–
Decrease in inventories	5,146,359	28,145
Net cash inflow/(outflow) from continuing operating activities	35,197,271	(3,984,229)

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

23. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans <i>HK\$</i>
At 1st January 1998	131,233,946
Increase in bank loans	62,474,423
Repayment of bank loans	(95,623,485)
At 31st December 1998	<u>98,084,884</u>

24. PLEDGE OF ASSETS**Group**

Certain properties and trucks of the Group with an aggregate net book value of HK\$109 million (1997: HK\$131 million) were pledged as securities and a corporate guarantee of HK\$58 million was given by the minority shareholder of a subsidiary against bank loans and general banking facilities amounting to HK\$160 million (1997: HK\$267 million) granted to the Group. At the balance sheet date, such facilities were utilized to the extent of HK\$98 million (1997: HK\$131 million).

25. COMMITMENTS**(a) Capital commitments**

	Group		Company	
	1998	1997	1998	1997
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Contracted but not provided for	<u>4,390,022</u>	<u>55,071,446</u>	<u>—</u>	<u>—</u>

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

25. COMMITMENTS (Cont'd)

(b) Commitments under operating leases

At 31st December 1998, the Group and the Company had commitments to make payments in the next twelve months under operating leases which expire as follows:–

	Group		Company	
	1998	1997	1998	1997
	Land and	Land and	Land and	Land and
	buildings	buildings	buildings	buildings
	HK\$	HK\$	HK\$	HK\$
Within one year	907,105	156,000	676,000	156,000
In the second to fifth years inclusive	2,257,502	2,364,622	909,000	909,000
	<u>3,164,607</u>	<u>2,520,622</u>	<u>1,585,000</u>	<u>1,065,000</u>

26. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

	Group	
	1998	1997
	HK\$	HK\$
Purchases from a jointly controlled entity (<i>note a</i>)	104,593,931	–
Sales to a jointly controlled entity (<i>note a</i>)	40,585,791	–
Loan granted to a related company (<i>note b</i>)	21,762,000	–

(a) The sales and purchases were transacted between a subsidiary of the Group and a jointly controlled entity of that subsidiary. Being one of the suppliers of the jointly controlled entity, the subsidiary sold raw materials to the jointly controlled entity which produced and sold the finished goods back to the subsidiary at cost. The subsidiary was a 33.01% associated company of the Group prior to 31 December 1997 and therefore the transactions between that company and its jointly controlled entity did not constitute related party transactions in 1997.

(b) During the year, a loan was granted to China Venturetech Investment Corporation ("CVIC"), a 50% shareholder of International Enterprises Investment Company Limited which is a substantial shareholder of the Company. Ms Chen Wei Li and Mr Lao Yuan Yi, the Chairman and Managing Director of the Company respectively, were also Vice President and board member of CVIC respectively at the transaction date. The loan is unsecured, interest bearing at 10% per annum and repayable within 12 months. In June 1998, CVIC was closed by the People's Bank of China and therefore the loan was fully provided in the accounts of the Group.

NOTES TO THE ACCOUNTS (Cont'd)

31st December 1998

27. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation due to the adoption of the Statement of Standard Accounting Practice 21 "Accounting for interests in joint ventures" issued by the Hong Kong Society of Accountants.

28. APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 29th April 1999.