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FIRST SHANGHAI GROUP



FIRST SHANGHAI INVESTMENTS LIMITED

Interim Report 2005

Corporate Information

BOARD OF DIRECTORS

Chairman and Managing Director

Mr. Lao Yuan Yi

Executive Directors

Mr. Xin Shulin, Steve

Mr. Yeung Wai Kin

Mr. Hu Yi Ming

Non-executive Director

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

Independent Non-executive Directors

Prof. Woo Chia Wei

Mr. Liu Ji

Mr. Yu Qi Hao

COMPANY SECRETARY

Mr. Yeung Wai Kin

REGISTERED OFFICE

Room 1903, Wing On House

71 Des Voeux Road, Central

Hong Kong

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Website: www.firstshanghai.com.hk

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

SOLICITORS

Richards Butler

T. H. Koo & Associates

PRINCIPAL BANKERS

CITIC Ka Wah Bank Limited

Standard Chartered Bank

REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of

Hong Kong Limited: 227

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (collectively the “Group”) for the six months ended 30th June 2005 together with the comparative figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

	Unaudited	Restated
	As at	As at
	30th June	31st December
	2005	2004
<i>Note</i>	HK\$'000	HK\$'000
Non-current liabilities		
Deferred tax liabilities	963	1,057
Long-term bank loans, secured	59,434	–
	<hr/>	<hr/>
Net assets	1,380,329	1,388,094
	<hr/> <hr/>	<hr/> <hr/>
Equity attributable to the Company's shareholders		
Share capital	<i>13</i> 234,738	234,738
Reserves	1,058,359	1,066,550
Minority interest	87,232	86,806
	<hr/>	<hr/>
Total equity	1,380,329	1,388,094
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

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

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

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

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting New HKFRS

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting New HKFRS *(Continued)*

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

- HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKFRS 2 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related-party disclosures.

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting New HKFRS *(Continued)*

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

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

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

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

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

In accordance with the provisions of HKFRS 3:

- The Group ceased amortisation of goodwill from 1st January 2005;
- Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;
- From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting New HKFRS *(Continued)*

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting New HKFRS *(Continued)*

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

	Effect of adopting				
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	Total HK\$'000
At 30th June 2005					
Decrease in property, plant and equipment	(88,793)	-	(13,100)	-	(101,893)
Increase in leasehold land and land use rights	88,793	-	-	-	88,793
Increase in investment properties	-	-	13,100	-	13,100
Increase in available-for-sale financial assets	-	27,214	-	-	27,214
Increase in loans receivable	-	11,915	-	-	11,915
Increase in financial assets at fair value through profit or loss	-	47,496	-	-	47,496
Decrease in investment securities	-	(82,767)	-	-	(82,767)
Decrease in other investments	-	(2,192)	-	-	(2,192)
Decrease in intangible assets	-	-	-	(6,913)	(6,913)
Increase in investments in jointly controlled entities	-	-	-	5,917	5,917
Increase/(decrease) in net assets	<u>-</u>	<u>1,666</u>	<u>-</u>	<u>(996)</u>	<u>670</u>
Increase in investment revaluation reserve	-	22,623	-	-	22,623
Decrease in retained earnings	-	(20,957)	-	(996)	(21,953)
Increase/(decrease) in equity	<u>-</u>	<u>1,666</u>	<u>-</u>	<u>(996)</u>	<u>670</u>
	Effect of adopting				
	HKAS 17 HK\$'000	HKAS 32 and HKAS 39 HK\$'000	HKAS 40 HK\$'000	HKFRS 3, HKAS 36 and HKAS 38 HK\$'000	Total HK\$'000
At 31st December 2004					
Decrease in property, plant and equipment	(89,177)	-	-	-	(89,177)
Increase in leasehold land and land use rights	89,177	-	-	-	89,177
Increase in net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(a) Effect of adopting New HKFRS *(Continued)*

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies

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

(I) *Foreign currency translation*

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(I) Foreign currency translation *(Continued)*

(c) Group companies *(Continued)*

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

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

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

(II) Investment properties

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(II) *Investment properties (Continued)*

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

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

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

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(II) *Investment properties (Continued)*

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

(III) *Goodwill*

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

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

(IV) *Impairment of assets*

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

(V) *Investments*

From 1st January 2004 to 31st December 2004:

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(V) Investments *(Continued)*

(a) Investment securities

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

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

(b) Other investments

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

From 1st January 2005 onwards:

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

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(V) *Investments (Continued)*

From 1st January 2005 onwards *(Continued)*

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(V) *Investments (Continued)*

From 1st January 2005 onwards *(Continued)*

(c) Available-for-sale financial assets *(Continued)*

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

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

(VI) *Accounts receivables*

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

2. CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New Accounting Policies *(Continued)*

(VII) Borrowings

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

(VIII) Interest income

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

4. SEGMENT INFORMATION *(Continued)*

Primary reporting format – business segments *(Continued)*

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

4. SEGMENT INFORMATION *(Continued)*

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

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

4. SEGMENT INFORMATION *(Continued)*

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

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

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments

The Group operates in two main geographical areas:

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

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

There are no sales among the geographical segments.

4. SEGMENT INFORMATION *(Continued)*

Secondary reporting format – geographical segments *(Continued)*

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

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

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

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

5. OPERATING PROFIT

	Unaudited	
	Six months ended 30th June	
	2005	2004
	HK\$'000	HK\$'000
Operating profit is stated after crediting and charging the following:		
Crediting:		
Gain on disposal of available-for-sale financial assets (<i>Note a</i>)	1,415	–
Dividend income	660	–
Gain on disposal of property, plant and equipment	51	–
Fair value gain on financial assets at fair value through profit or loss	17,665	–
Fair value gain on revaluation of investment properties	2,150	–
Gain on disposal of partial interest in subsidiaries	–	164
Amortisation of negative goodwill	–	2,799
	<u> </u>	<u> </u>
Charging:		
Depreciation	6,139	7,006
Amortisation of intangible assets	540	218
Amortisation of goodwill	–	10,316
Staff costs (<i>Note 6</i>)	51,973	49,600
Impairment losses on goodwill	13,667	–
Fair value losses on financial assets at fair value through profit or loss	3,614	–
	<u> </u>	<u> </u>

Note:

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

6. STAFF COSTS

Staff costs, including directors' remuneration, comprise:

	Unaudited	
	Six months ended 30th June	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Wages, salaries and allowance	46,456	43,691
Medical and other benefits	1,915	3,104
Pension costs – defined contribution plans	3,602	2,615
Termination benefits	–	190
	<u>51,973</u>	<u>49,600</u>

7. TAXATION

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

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

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

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

8. EARNINGS PER SHARE

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

9. CAPITAL EXPENDITURE

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

10. LOANS RECEIVABLE

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

11. ACCOUNTS RECEIVABLES

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

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

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

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

12. TRADE AND OTHER PAYABLES

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

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

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

13. SHARE CAPITAL

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

14. COMMITMENTS

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

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

14. COMMITMENTS *(Continued)*

(b) Commitments under operating leases

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

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

15. RELATED PARTY TRANSACTIONS

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

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

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

- (b) Key management compensation

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

16. CONTINGENT LIABILITIES

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

17. EVENT AFTER BALANCE SHEET DATE

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

OPERATION REVIEW

For the six months ended 30th June 2005, the Group recorded a turnover and a net profit of HK\$362 million and HK\$15 million respectively. After the disposal of 51.8% equity interests in Zhejiang Shaoxing Betung Instrument Company Limited and Zhejiang Shaohong Instrument Company Limited (collectively “Betung”) in December 2004, Betung are treated as associated companies of the Group and their results are not consolidated to the Group. The drop in turnover caused by the deconsolidation of Betung was offset by the substantial increase in the air freight forwarding business of Shanghai Zhong Chuang International Container Storage & Transportation Co. Ltd. (“ZCIC”). The new management team joined ZCIC in early 2005 succeeded in expanding the air freight forwarding business and pushed the turnover of ZCIC to the historical high.

After the change of some relevant regulations by the PRC Government in early 2005, the clients of Corporate Finance Division postponed their listing schedules and our financial advisory and underwriting income decline according. The lacklustre trading behaviour in the Hong Kong stock market adversely affected the performance of our brokerage team. Both the turnover and operating profit from the brokerage business decreased in the period under review.

In 2002, the Group invested HK\$20 million into a mutual fund established by our Assets Management Division as a seed money. The performance of the fund is encouraging and some professional investors have invested in the fund since 2003. The Group’s investment in the fund is reclassified as financial assets at fair value through profit or loss starting from 2005 and an unrealised holding gain in the fund of HK\$11 million was recognised in the first half of 2005.

The profit margins of RBI Holdings Limited (“RBI”) and Goodbaby Child Products Company Limited (“Goodbaby”) were eroded by the rising production costs in the Chinese Mainland. For the six months ended 30 June 2005, RBI recorded a drop in both turnover and net profit. Since the increase in turnover offset the adverse effect in the profit margin, Goodbaby managed to maintain a satisfactory growth in profit attributable to shareholders.

The market price of the listed investment of China Assets (Holdings) Limited (“China Assets”), Kongzhong Corporation dropped from US\$9.61 as at 31st December 2004 to US\$9.15 as at 30th June 2005. A net fair value loss of US\$1.4 million was incurred and China Assets recorded a operating loss in the review period.

PROSPECTS

Activity in the stock market soared dramatically from July 2005. We expect that the investment environment will remain positive for the remaining 2005, given the tame inflation outlook for the US economy, the resilient Chinese economy and the continued recovering of the Hong Kong economy. The speculation on the Renminbi revaluation may persist, leading to fund flow into the local market. The listing of the major state owned banks in the remainder of the year will further push up the trading records and our Brokerage Division will benefit from the improvement in market sentiments. Two of our Corporate Finance Division's clients planned to list in the Hong Kong stock market before the year end. It will bring a reasonable contribution to the Group.

Following the rapid development in the air freight forwarding business, ZCIC will focus on controlling its operating cost to improve the profitability. As part of the cost saving plan, ZCIC had constructed its own warehouse in the Pudong Airport.

The Group had sold 37 million shares in RBI at a consideration of HK\$57.7 million recently and the shareholding in RBI decreased from 19.95% to 11.08%. Although the increase in cost of raw materials will continue to affect the profit margin of RBI and Goodbaby, we believe that these two investments will provide reasonable returns to the Group.

Chinese Mainland's economy remains robust and the performance of the industrial business still grows steadily. We are confident that our various investments in different business sectors in Chinese Mainland will bring good contributions to the Group. The commencement of operation of Kunshan Traders Hotel in October will further improve the Group's results and cashflows in future. We are looking forward to share our achievement with the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Profit after taxation for the six months ended 30th June 2005 was HK\$15 million, a decrease of 38% over the same period in 2004. Basic earnings per share decreased to HK1.27 cents, down 38%.

Turnover of the Group for the period under review increased by 21% to HK\$362 million as compared to HK\$300 million for the same period last year.

Liquidity and financial resources

The Group relied principally on its internal resources to fund its operation and investment activities. Bank loans will be raised in occasion to meet the different demands in our various investment projects. As at 30th June 2005, the Group raised bank loans and incurred overdraft of approximately HK\$92 million and is holding approximately HK\$147 million cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 7%. Investment in financial assets at fair value through profit and loss as at 30th June 2004 amounted to approximately HK\$93 million.

The Group's principal operations are transacted and recorded in Hong Kong dollars and Renminbi. We expected that Renminbi will appreciate in a stable pattern in future. The Group has no significant exposure to other foreign exchange fluctuations.

Employees

As at 30th June 2005, the Group employed 1,029 (30th June 2004: 1,978) staff, of which 936 are located in 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. The staff costs for the six months ended 30th June 2005 amounted to approximately HK\$52 million.

Pledge of assets

Certain properties of the Group with an aggregate net book value of approximately HK\$79 million as at 30th June 2005 (31st December 2004, as restated: HK\$80 million) as well as fixed deposits of HK\$15 million (31st December 2004: HK\$15 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$159 million (31st December 2004: HK\$84 million) granted to the Group.

Contingent liabilities

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

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (2004: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30th June 2005, the interests of the Directors and chief executives in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance (“SFO”), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

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

Directors	Personal Interests	Family Interests	Corporate Interests	Total	Percentage
Lao Yuan Yi	44,532,000	–	72,952,000	117,484,000	10%
Woo Chia Wei	–	72,000	–	72,000	0.006%

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

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

SHARE OPTIONS

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. 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.

Details of share options granted under the Scheme and remain outstanding as at 30th June 2005 are as follows:

	Options held at 1st January 2005	Options lapsed during the period	Options held at 30th June 2005	Exercise price HK\$	Date of grant	Exercise period
Directors:						
Lao Yuan Yi	7,338,100	–	7,338,100	0.342	26/09/1995	26/03/1996 – 07/10/2005
	5,503,900	–	5,503,900	0.318	11/07/1996	11/01/1997 – 15/07/2006
	10,000,000	–	10,000,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
Xin Shulin, Steve	2,534,980	(2,534,980)	–	0.453	26/01/1995	26/07/1995 – 09/02/2005
	838,640	–	838,640	0.318	11/07/1996	11/01/1997 – 15/07/2006
	2,500,000	–	2,500,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	4,464,000	–	4,464,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
Yeung Wai Kin	2,401,560	(2,401,560)	–	0.453	26/01/1995	26/07/1995 – 09/02/2005
	1,494,304	–	1,494,304	0.318	11/07/1996	11/01/1997 – 15/07/2006
	2,500,000	–	2,500,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	6,980,000	–	6,980,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
Hu Yi Ming	1,000,000	–	1,000,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	2,300,000	–	2,300,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
Employees	1,952	(1,952)	–	0.453	26/01/1995	26/07/1995 – 09/02/2005
	4,002,600	–	4,002,600	0.318	11/07/1996	11/01/1997 – 15/07/2006
	950,000	–	950,000	0.816	01/11/1997	01/05/1998 – 12/11/2007
	1,804,000	–	1,804,000	0.283	08/07/1998	08/01/1999 – 15/07/2008
	<u>56,614,036</u>	<u>(4,938,492)</u>	<u>51,675,544</u>			

Notes:

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 participants. The Directors consider it inappropriate to value the share options as a number of factors critical for the valuation cannot be determined accurately. Any valuation of the share option based on various speculative assumptions would be meaningless and could be misleading to the shareholders.

Options in respect of shares in an associated corporation

	Associated corporation	Options held at 1st January 2005	Options exercised during the period	Options held at 30th June 2005	Exercise price HK\$	Exercise period
Directors:						
Lao Yuan Yi	China Assets (Holdings) Limited	740,000	(15,000)	725,000	2.65	25/05/2004 – 23/05/2014
Yeung Wai Kin	China Assets (Holdings) Limited	700,000	-	700,000	2.65	25/05/2004 – 23/05/2014

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

SUBSTANTIAL SHAREHOLDERS' INTERESTS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 30th June 2005, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors.

Ordinary shares of HK\$0.2 each in the Company:

		Corporate Interests	Percentage
China Assets (Holdings) Limited ("China Assets")	Long position	238,032,000	20.28%

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 30th June 2005.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

AUDIT COMMITTEE

The Audit Committee was established on 27th December 1998. The Audit Committee comprises the non-executive Director, Mr. Kwok Lam Kwong, Larry, J.P. and the three independent non-executive Directors, Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao. The Audit Committee acts in an advisory capacity and market recommendations to the Board. The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited interim accounts for the six months ended 30th June 2005 approved by the Directors.

REMUNERATION COMMITTEE

A Remuneration Committee, comprising two independent non-executive directors and an executive director, has been established in 2005. The committee was set up to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes. Meetings will be held in the second half of this year to discuss the above in details.

COMPLIANCE WITH CODE ON GOVERNANCE PRACTICES

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Listing Rules throughout the period, except for the following deviation.

a) **Code Provision A.2.1**

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Currently, Mr. Lao Yuan Yi holds both the positions of the Chairman of the Board and the Chief Executive Officer.

b) **Code Provision A 4.2**

This Code stipulates that every director should be subject to retirement by rotation at least once every three years. In accordance with the Articles of Association of the Company, at every general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, shall be subject to retirement by rotation.

The Board will review the current situation from time to time and shall make necessary arrangements when the Board consider appropriate.

COMPLIANCE WITH THE MODEL CODE

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

By order of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 20th September 2005