



# FIRST SHANGHAI INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 227)

## 2004 FINAL RESULTS ANNOUNCEMENT

### RESULTS

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (the “Group”) for the year ended 31st December 2004 as follows:

	<i>Note</i>	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Turnover	2	<b>587,845</b>	281,351
Cost of sales		<b>(386,118)</b>	(176,922)
Gross profit		<b>201,727</b>	104,429
Other revenue		<b>2,427</b>	3,528
Distribution costs		<b>(7,748)</b>	(96)
Administrative expenses		<b>(167,260)</b>	(97,785)
Other operating expenses		<b>(28,174)</b>	(21,532)
Other operating income		<b>15,798</b>	35,358
Operating profit	2 & 3	<b>16,770</b>	23,902
Finance costs		<b>(4,709)</b>	(1,882)
Share of profits less losses of			
Associated companies	4	<b>57,097</b>	42,525
Jointly controlled entities		<b>25,515</b>	42,965
Profit before taxation		<b>94,673</b>	107,510
Taxation	5	<b>(14,211)</b>	(16,208)
Profit after taxation		<b>80,462</b>	91,302
Minority interests		<b>(110)</b>	2,518
Profit attributable to shareholders		<b>80,352</b>	93,820
Dividends – proposed		<b>11,737</b>	14,084
Basic earnings per share	6	<b>6.85 cents</b>	8.00 cents
Fully diluted earnings per share	6	<b>6.72 cents</b>	7.88 cents

Notes:

## 1. Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). They have been prepared under the historical cost convention except that investment properties and other investments are stated at fair value.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31st December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 2. Turnover and segment information

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

### Primary reporting format – business segments

	Securities trading and investment <i>HK\$'000</i>	Corporate finance and stockbroking <i>HK\$'000</i>	Container transportation and freight forwarding services <i>HK\$'000</i>	*Sales of motor vehicles meters and components <i>HK\$'000</i>	Investment holding, property holding and management <i>HK\$'000</i>	Sales of child products <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the year ended 31st December 2004							
Turnover	<u>99,718</u>	<u>104,443</u>	<u>48,606</u>	<u>310,172</u>	<u>24,906</u>	<u>–</u>	<u>587,845</u>
Segment results	<u>287</u>	<u>53,344</u>	<u>(3,387)</u>	<u>(79)</u>	<u>(35,822)</u>	<u>–</u>	14,343
Other revenue							2,427
Finance costs							(4,709)
Share of profits less losses of							
– Associated companies	–	–	–	(11,693)	56,831	11,959	57,097
– Jointly controlled entities	–	–	–	–	2,437	23,078	25,515
Profit before taxation							94,673
Taxation							<u>(14,211)</u>
Profit after taxation							80,462
Minority interests							<u>(110)</u>
Profit attributable to shareholders							<u>80,352</u>

	Securities trading and investment <i>HK\$'000</i>	Corporate finance and stockbroking <i>HK\$'000</i>	Container transportation and freight forwarding services <i>HK\$'000</i>	*Sales of motor vehicles meters and components <i>HK\$'000</i>	Investment holding, property holding and management <i>HK\$'000</i>	Sales of child products <i>HK\$'000</i>	Group <i>HK\$'000</i>
For the year ended 31st December 2003							
Turnover	<u>148,163</u>	<u>89,324</u>	<u>42,496</u>	<u>-</u>	<u>1,368</u>	<u>-</u>	<u>281,351</u>
Segment results	<u>12,668</u>	<u>27,166</u>	<u>(3,368)</u>	<u>-</u>	<u>(16,092)</u>	<u>-</u>	20,374
Other revenue							3,528
Finance costs							(1,882)
Share of profits less losses of							
– Associated companies	-	-	-	-	22,549	19,976	42,525
– Jointly controlled entities	-	-	-	-	3,355	39,610	42,965
Profit before taxation							107,510
Taxation							(16,208)
Profit after taxation							91,302
Minority interests							2,518
Profit attributable to shareholders							<u>93,820</u>

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

*Secondary reporting format – geographical segments*

	Turnover		Segment results	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Hong Kong	<b>217,679</b>	237,834	<b>48,165</b>	51,813
Chinese Mainland	<b>369,790</b>	43,007	<b>(31,121)</b>	(26,799)
Others	<b>376</b>	510	<b>(2,701)</b>	(4,640)
	<u><b>587,845</b></u>	<u>281,351</u>	<u><b>14,343</b></u>	<u>20,374</u>
Other revenue			<u><b>2,427</b></u>	3,528
Operating profit			<u><b>16,770</b></u>	<u>23,902</u>

### 3. Operating profit

Operating profit is stated after crediting and charging the following:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
<b>Crediting:</b>		
Recovery of the deposit for purchase of an office premises	–	9,000
Dividend income from listed investments	497	787
Gross rental income from investment properties	–	308
Gain on disposal of investment securities	591	1,439
Gain on disposal of other investment	248	13,259
Gain on disposal of certain interest in an associated company	–	6,002
Amortisation of negative goodwill	5,521	3,178
Gain on disposal of partial interest in subsidiaries	4,241	–
	<u>4,241</u>	<u>–</u>
<b>Charging:</b>		
Depreciation	14,597	8,488
Loss on disposal of fixed assets	92	36
Amortisation of trading rights and patent	682	164
Amortisation of goodwill	21,024	19,809
	<u>21,024</u>	<u>19,809</u>

4. The Group's share of profit before taxation in an associated company, China Assets (Holdings) Limited, amounted to HK\$56,830,998 which included an unrealized gain on listed investment of HK\$76,590,154 and a provision for impairment in value of an unlisted investment of HK\$10,829,745.

5. Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

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

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

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

## 7. Contingent liabilities

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Guarantee for bank facilities of a subsidiary	<u>50,000</u>	<u>50,000</u>

## DIVIDEND

The Board of Directors have recommended the payment of a final dividend of HK\$0.01 (2003: HK\$0.012) per ordinary share, totalling HK\$11,736,917 (2003: HK\$14,084,300).

## BUSINESS REVIEW

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

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

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

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

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

During the year, KongZhong Corporation, one of investment of China Assets (Holdings) Ltd. (“China Assets”), has listed its shares on the Nasdaq National Market in the US. China Assets recorded a substantial gain of approximately US\$32 million from this investment of which US\$29 million represented an unrealized gain on listed investment. It had made a provision for impairment in value of investment in Shandong Lukang Pharmaceutical Company Limited of US\$4 million in 2004.

## **PROSPECTS**

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

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

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

The development of SOHO type properties in Shanghai Zhangjiang High-tech Park is in a good progress. As scheduled, the first phase of the properties project was completed in 2004. The second phase is expected to be completed in early 2006. The development of a hotel in Kunshan Economy & Technology Development District is within schedule and will commence business by the end of 2005. We believe that both projects will provide reasonable returns to the Group.

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Results**

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

### **Liquidity and financial resources**

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

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

## **Pledge of assets**

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

## **Employees**

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

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

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

## **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Wednesday, 25th May 2005 to Monday, 30th May 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queens Road East, Hong Kong, not later than 4:00 p.m. on Tuesday, 24th May 2005. Subject to shareholders' approval of payment of the final dividend, dividend warrants will be dispatched on 28th June 2005.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

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

## **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.

## **PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE**

The Year 2004 Annual Report containing the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on The Stock Exchange of Hong Kong Limited's website (<http://www.hkex.com.hk>) in due course.

By order of the Board

**LAO Yuan Yi**

*Chairman and Managing Director*

As at the date of this announcement, the Board comprises Mr. Lao Yuan Yi, Mr. Xin Shulin, Mr. Yeung Wai Kin, Mr. Hu Yi Ming, Prof. Woo Chia Wei, Mr. Kwok Lam Kwong, Larry, J.P., Mr. Liu Ji and Mr. Yu Qi Hao.

Hong Kong, 18th April 2005

Please also refer to the published version of this announcement in The Standard.