



Annual Report 2006



第一上海

FIRST SHANGHAI GROUP

First Shanghai Investments Limited

(Stock Code : 227)

Corporate Information

BOARD OF DIRECTORS

Chairman

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

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Chairman's Statement

I am pleased to present the Group's annual report and audited consolidated financial statements for the year ended 31st December 2006. The Group's consolidated revenue and net profit attributable to shareholders of the Company for the year ended 31st December 2006 amounted to approximately HK\$1,319 million and approximately HK\$237 million respectively.

BUSINESS OVERVIEW

The Group has achieved encouraging results in overall performance in 2006. For the year ended 31st December 2006, the Group achieved a net profit attributable to shareholders of approximately HK\$237 million, representing 210% increase from 2005. This result is mainly contributed by the gain on disposal of our investment in Geoby International Holdings Limited ("Geoby"), amounting to approximately HK\$100 million, which was completed in January 2006. In addition, the Group sold the properties held by Fu Hai Digital Science & Technology (Shanghai) Company Limited ("Fu Hai") in Shanghai, with a recognised gain of approximately HK\$55 million in 2006.

The continuing operations of the Group have also achieved substantial improvement in 2006, with an increase in net profit of 135% from approximately HK\$29 million in 2005 to approximately HK\$68 million in 2006. Revenue of the Group grew by 15% from approximately HK\$1,148 million in 2005 to approximately HK\$1,319 million in 2006.

With the brisk activities of the Hong Kong stock market, the average daily turnover reported up to HK\$47 billion, representing 148% increase from that of 2005. Hang Seng Index surpassed the 20,000 mark for the first time in history while the Hang Seng China Enterprises Index set a record level of over 90% increase over the year. Our Group's financial services arm was able to capitalise on this opportunity, especially for our Securities Investment Division and Brokerage Division. Both the Group's daily average margin client portfolio and average margin loan amount have shown record high during the year of 2006 of approximately HK\$1,111 million and HK\$130 million respectively. Significant gross profits were recorded for these two divisions tipping with approximately HK\$127 million and HK\$101 million respectively. This is mainly attributable to the huge surge of securities trading income and brokerage commission income. On the other hand, due to the tightened listing requirements imposed by the PRC authorities, our Corporate Finance Division was adversely affected and only one of its clients has been successfully listed on Stock Exchange of Hong Kong.

The container transportation and freight forwarding business of Shanghai Zhong Chuang International Container Storage & Transportation Co. Ltd. ("ZCIC"), is still the Group's major revenue contributor, bringing approximately HK\$891 million to the Group. Despite this, thin profit margin was recorded as a result of keen market competition and the business recorded an operating loss before interest and taxation of approximately HK\$15 million.

Kunshan Traders Park Hotel ("KS Hotel") commenced business in October 2005 and held its grand opening in March 2006. With high customer demand within the region and a good brand name, Shangri-la, the average occupancy rate has exceeded our expectation and maintained at 61% in 2006. It recorded an operating profit before interest and taxation of approximately HK\$6 million.

All remaining commercial properties of Phase One in Shanghai High-tech Park held by Shanghai Zhangjiang Information Technology Company Limited ("Zhangjiang"), a 50% owned jointly controlled entity, were sold in 2006 and brought a satisfactory return to the Group.

CHAIRMAN'S STATEMENT

In 2006, China Assets (Holdings) Limited ("China Assets"), the major associated company of the Group, has reported significant drop in its net profit. China Assets continued to sell its investments in KongZhong Corporation, one of its major investments. The share price of KongZhong Corporation dropped during the year due to the change of relevant rules that adversely affecting its business growth. This impact has been partially set off by the return from an investment on a real estate fund and an over-the-counter equity linked option.

PROSPECTS

In April 2007, the Company entered into an agreement with Kingdom Hotel Investments, a leading international hotel and resort investment company based in Dubai, for the disposal of its entire interest in KS Hotel at a consideration of approximately RMB201.5 million (equivalent to approximately HK\$204.2 million). The transaction is the first acquisition of Kingdom Hotel Investments in China. The resulting gain on disposal will recognise in the first half of 2007. The cash consideration received will enhance the Group's financial position and improve the Group's capacity to acquire potential investment in line with the investment strategy of the Group.

Following the success in property development projects in Beijing and Shanghai including those through Zhangjiang and Fu Hai over the past few years, the Group is confident in speeding its expansion plan for property development business, targeting in Yangtze River Delta and Pearl River Delta. Phase Two of Zhangjiang development project was completed in late 2006. The Group plans to hold these commercial properties for lease. Besides, the Group has also engaged in three new property development projects: a health care and recreation property development project in Zhongshan (near Macau) and two property development projects in Kunshan (bordering with Shanghai) for office and residential use.

With the strong performance in the Hong Kong stock market in 2006, we believe the upward trend will continue with expectation for Renminbi appreciation and improvement in the financial conditions of Hong Kong individuals. The Group will capture this growth momentum by enhancing its trading system and strengthening its brokerage team for the provision of professional consulting services for customers.

In view of the keen market competition and thin profit margin of ZCIC, the Group has conducted certain restructure plan to reduce the operating cost in 2006 with unsatisfactory results. The Group has plans to terminate the remaining freight forwarding business in 2007.

DIVIDEND

An interim dividend of HK\$0.02 (2005: Nil) per ordinary share, totalling HK\$23,877,000 (2005: Nil) was paid to shareholders of the Company on 31st October 2006.

The Board of Directors recommends the payment of a final dividend of HK\$0.005 (2005: HK\$0.015) per ordinary share, totalling HK\$5,969,000 (2005: HK\$17,758,000), which together with the interim dividend payment amounting to a total of HK\$29,846,000 (2005: HK\$17,758,000).

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

LAO YUAN YI

Chairman

20th April 2007



Report of the Directors

The Board of Directors submit their report together with the audited consolidated financial statements for the year ended 31st December 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries, associated companies and jointly controlled entities are set out in Notes 20, 21 and 22 to the consolidated financial statements.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the consolidated financial statements.

RESULTS

The results for the year are set out in the consolidated income statement on page 20.

DIVIDEND

An interim dividend of HK\$0.02 (2005: Nil) per ordinary share, totalling HK\$23,877,000 (2005: Nil) was paid to shareholders of the Company on 31st October 2006.

The Board of Directors recommends the payment of a final dividend of HK\$0.005 (2005: HK\$0.015) per ordinary share, totalling HK\$5,969,000 (2005: HK\$17,758,000), which together with the interim dividend amounting to a total of HK\$29,846,000 (2005: HK\$17,758,000).

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in Note 34 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$38,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in Note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in Note 33 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2006, calculated pursuant to section 79B of the Hong Kong Companies Ordinance, amounted to HK\$281,937,000 (2005: HK\$47,214,000).

SUBSEQUENT EVENTS

Details of the subsequent events of the Company are set out in Note 41 to the consolidated financial statements.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2006.

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 members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation to the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting. The total number of options available for issue under the Scheme as at 31st December 2006 is 38,260,370 shares, representing approximately 3.22% of ordinary shares in issue of the Company as of that date.

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

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



REPORT OF THE DIRECTORS

Details of share options remain outstanding as at 31st December 2006 are as follows:–

	Options held at 1st January 2006	Options granted during year (Note a)	Options exercised during year (Note b)	Options lapsed during year	Options held at 31st December 2006	Exercise price HK\$	Date of grant	Exercise period
Directors:–								
Lao Yuan Yi	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
	22,842,000	–	–	–	22,842,000	0.564	30/11/2005	30/05/2006-11/12/2015
Xin Shulin, Steve	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
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Yeung Wai Kin	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
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
Hu Yi Ming	1,000,000	–	–	–	1,000,000	0.816	01/11/1997	01/05/1998-12/11/2007
	1,300,000	–	–	–	1,300,000	0.283	08/07/1998	08/01/1999-15/07/2008
Employees	4,002,600	–	(4,000,000)	(2,600)	–	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	–	–	(800,000)	1,004,000	0.283	08/07/1998	08/01/1999-15/07/2008
	11,810,000	–	–	–	11,810,000	0.564	30/11/2005	30/05/2006-11/12/2015
	–	17,850,000	–	(1,250,000)	16,600,000	0.680	03/03/2006	03/03/2008-02/03/2016
	<u>101,609,444</u>	<u>17,850,000</u>	<u>(11,836,844)</u>	<u>(2,052,600)</u>	<u>105,570,000</u>			

REPORT OF THE DIRECTORS

Notes:

- a. During the period, 17,850,000 share options were granted under the Scheme with an exercise price of HK\$0.680 per share. The related weighted average closing price immediately before the date on which the share options were granted was HK\$0.670 per share. The fair value of share options granted is estimated using the Black-Scholes valuation model based on the following assumptions:

Date of grant	3rd March 2006
Fair value per share option	HK\$0.280
Share closing price	HK\$0.670
Exercise price	HK\$0.680
Expected volatility*	42.39%
Annual risk-free interest rate**	4.30%
Life of options	8 years
Dividend yield***	2.52%
Fair value of total share options granted during the period – Employees	HK\$5,002,000

* Expressed as annualised volatility for 1 year immediately preceding the grant date

** Based on yield of 10-year Exchange Fund Notes

*** Expressed as annualised dividend of the most recent financial year and the closing price on grant date

The fair value calculated is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The value of a share option varies with difference variables of certain subjective assumptions. Any change in variables so adopted may materially affect the estimation of the fair value of a share option.

- b. Exercise dates for options held by Mr. Lao, Mr. Xin, Mr. Yeung and 3 general employees were 6th July 2006, 15th May 2006, 6th July 2006, 22nd May 2006, 22nd June 2006 and 5th July 2006 respectively. At that dates before the options were exercised, the market value per share were HK\$0.70, HK\$0.81, HK\$0.70, HK\$0.78, HK\$0.66 and HK\$0.73 respectively.

DIRECTORS

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

Mr. LAO Yuan Yi

Mr. XIN Shulin, Steve

Mr. YEUNG Wai Kin

Mr. HU Yi Ming

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

** Prof. WOO Chia Wei

** Mr. LIU Ji

** Mr. YU Qi Hao

* Mr. Kwok Lam Kwong, Larry, J.P. is a non-executive director of the Company.

** Prof. Woo Chia Wei, Mr. Liu Ji and Mr. Yu Qi Hao are independent non-executive directors and were appointed for a term of two years.

Mr. LAO Yuan Yi and Mr. XIN Shulin, Steve retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.



REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

Mr. Lao Yuan-Yi (61). Chairman and Managing Director, Joined the Company in 1993. Currently Chairman of China Assets (Holdings) Ltd, the Company's associated company which is listed on The Stock Exchange of Hong Kong Limited. Previously senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the PRC State Science & Technology Commission, Ministry of Communications of the People's Republic of China and the PRC Railway Ministry. Mr. Lao graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. Xin Shu-Lin, Steve (53). Appointed as Director of the Company in 1998. He joined the Company in 1994 as Executive Vice President in charge of direct investment. Previously Mr. Xin worked as registered Financial Planner for Merrill Lynch and Senior Financial Analyst and Partner for Vail Securities Inc in Vail Colorado. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver in 1992.

Mr. Yeung Wai-Kin (45). Appointed as Director of the Company in 1998. He is also Chief Financial Officer and Company Secretary of the Company. Mr. Yeung joined the Company in 1993 and has over 20 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited, the Company's associated company, and RBI Holdings Limited which are listed in The Stock Exchange of Hong Kong Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

Mr. Hu Yi-Ming (44). Appointed as Director of the Company in 1998. He joined the Group in 1996 as Managing Director of its Assets Management Division. Prior to joining the Group, Mr. Hu was Vice President – Foreign Exchange of Banque Paribas, Hong Kong Branch. Mr. Hu graduated with a Bachelor of Economics degree from the Shanghai University of Finance and Economics. After his graduation, he gained extensive experience in money market dealing from several reputable corporations in PRC, USA and Singapore.

Mr. Kwok Lam-Kwong, Larry, J.P. (51). Appointed as Independent Non-executive Director in 1994 and has been re-designated to Non-executive Director of the Company with effect from 17th March 2005. Mr. Kwok is a practising solicitor in Hong Kong and is also qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as an accountant in Hong Kong, Australia and the United Kingdom. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He is currently the Vice-Chairman of the Consumer Council, a member of the Hospital Governing Committee of the Princess Margaret Hospital/Kwai Chung Hospital and a member of the Traffic Accident Victims Assistance Advisory Committee. He is also a member of the Political Consultative Committee of Guangxi in the People's Republic of China.

REPORT OF THE DIRECTORS

Professor Woo Chia-Wei (69). Appointed as Independent Non-executive Director in 1993. Currently Senior Advisor to the Shui On Holdings Limited. President Emeritus of the Hong Kong University of Science and Technology. Previously President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of several companies including Shanghai Industrial Holdings Limited and Lenovo Holdings Limited. He serves on the Commission on Strategic Development of HKSAR, and the Chinese People's Political Consultative Conference.

Mr. Liu Ji (71). Appointed as Independent Non-executive Director on 11th March 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He holds the posts of Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School since 1993. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing.

Mr. Yu Qi-Hao (60). Appointed as Independent Non-executive Director on 17th March 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director of Shenyin Wanguo (H.K.) Limited from 1995 to 1997 and a non-executive director from 1997 to 1998. And during the period from 2001 to 2006, Mr. Yu worked as advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

Mr. Mo Siu-Lun, Henry (44). Joined the Company in January 2000 as Chief Information Officer of the Group. Mr. Mo has over 23 years of managerial and technical experience in the information technology, manufacturing and marketing communication sector. Prior to joining the Group, he had held various management positions with major public listed companies. He obtained his Postgraduate Diploma in Engineering Management from City University of Hong Kong, a Master's Degree in Manufacturing Systems Engineering from Warwick University of the United Kingdom and a Master's Degree in Electronic Business from City University of Hong Kong.

Mr. Yu Tsz Chau, James (43). Mr. Yu joined our Group as Vice President of First Shanghai Financial Holding Limited in January 2005 and then promoted as Managing Director in July 2006. Mr. Yu has more than 10 years solid experience in investment banking and securities industry, and is especially familiar with the investment market of Chinese Mainland. Mr. Yu graduated from Wuhan University with a Master's Degree in Economics in 1988 and was a lecturer in the Management School of Wuhan University.

DIRECTORS' INTERESTS IN CONTRACTS

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



REPORT OF THE DIRECTORS

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

At 31st December 2006, the interests of each director and chief executive 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 required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:–

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

Name of directors		Number of shares and underlying shares held			% of the issued share capital of the Company
		Personal interests	Corporate interests	Total	
Mr. Lao Yuan Yi	Long position	90,216,000	72,952,000	163,168,000	13.67%
Mr. Xin Shulin, Steve	Long position	19,612,640	–	19,612,640	1.64%
Mr. Yeung Wai Kin	Long position	22,784,304	–	22,784,304	1.91%
Mr. Hu Yi Ming	Long position	2,300,000	–	2,300,000	0.19%

* No directors and chief executives has any interest of short positions in shares or underlying shares of the Company.

(b) Options in respect of shares in an associated corporation:

Name of Directors		Number of options held			% of the issued share capital of the associated corporation
		Personal interests		Total	
Mr. Lao Yuan Yi	China Assets (Holdings) Ltd	725,000	Long position	725,000	0.96%
Mr. Yeung Wai Kin	China Assets (Holdings) Ltd	700,000	Long position	700,000	0.92%

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

Saved as disclosed above, at no time during the year, the directors and chief executives had any interest in shares, underlying shares and debentures of the Company and its associated corporation required to be disclosed pursuant to the SFO.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under section 336 of the SFO shows that as at 31st December 2006, 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	248,249,300	20.79%

China Assets is a Hong Kong listed company, which is also an associated company of the Group. Apart from the above, so far as the Directors are aware, there are no parties which were, directly or indirectly, interested in 5% or more of the nominal value of the issued share capital of the Company as at 31st December 2006.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2006 and 2005.

CONNECTED TRANSACTION

For the year ended 31st December 2006, the Company did not have any connected transactions which need to be disclosed.

FIVE YEAR FINANCIAL SUMMARY

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

	2006	Restated 2005	Restated 2004	Restated 2003	Restated 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	2,092,105	1,924,210	1,609,247	1,730,671	1,226,011
Total liabilities (net of minority interests)	396,434	510,750	220,756	417,516	43,687
Total net assets	1,695,671	1,413,460	1,388,491	1,313,155	1,182,324
Turnover	1,319,289	1,148,462	498,190	153,408	91,066
Profit attributable to shareholders	236,573	76,320	80,955	93,787	49,979
Earnings per share					
– basic	19.91 cents	6.49 cents	6.90 cents	7.99 cents	4.41 cents
– fully diluted	19.53 cents	6.40 cents	6.78 cents	7.88 cents	4.36 cents



REPORT OF THE DIRECTORS

AUDIT COMMITTEE

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

AUDITORS

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

On behalf of the Board

LAO Yuan Yi

Chairman

Hong Kong, 20th April 2007

Management Discussion and Analysis

RESULTS

For the year ended 31st December 2006, the Group recorded a net profit attributable to shareholders of approximately HK\$237 million, representing an increase of 210% over 2005 of approximately HK\$76 million. Basic earnings per share attributable to the shareholders of the Company grew from HK6.49 cents in 2005 to HK19.91 cents in 2006. Revenue of the Group is approximately HK\$1,319 million, which recorded an increase of 15% from 2005.

DISPOSAL OF INTERESTS IN JOINTLY CONTROLLED ENTITIES

On 7th November 2005, the Company entered into two conditional agreements for the sales of its entire interest in Geoby International Holdings Limited and its subsidiaries ("Geoby") to Pacific United Development Limited (ultimately controlled by the management team of Geoby) and G-Baby Holding Limited (a third party independent of the Company), at a consideration of US\$1,544,399 and US\$58,032,683 respectively. Upon completion of the transaction in January 2006, the Company has no interest in Geoby thereon and has recorded a gain of approximately HK\$100 million in the consolidated results for the year ended 31st December 2006.

LIQUIDITY AND FINANCIAL RESOURCES

The Group relied principally on its internal resources to fund its operations and investment activities. Bank loans will be raised occasionally to meet the different demands of our various investment projects. As at 31st December 2006, the Group had raised bank loans of approximately HK\$147 million and held approximately HK\$476 million cash reserves. The gearing ratio (total borrowings to shareholders' fund) is at the level of 8.7%. Investment in 'financial assets at fair value through income statement' as at 31st December 2006 amounted to approximately HK\$158 million.

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

PLEDGE OF ASSETS

Certain properties and leasehold land of the Group with an aggregate net book value of approximately HK\$76 million as at 31st December 2006 (2005: approximately HK\$96 million) as well as fixed deposits of approximately HK\$32 million (2005: approximately HK\$15 million) were pledged as securities against bank loans and general banking facilities amounting to approximately HK\$161 million (2005: approximately HK\$45 million) granted to the Group.

EMPLOYEES

As at 31st December 2006, the Group employed 1,013 staff, of which 922 are located in the Chinese Mainland. Employees' 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 of the Group for the year ended 31st December 2006 amounted to approximately HK\$196 million.

CONTINGENT LIABILITIES

As at 31st December 2006, the Group had no material contingent liabilities.



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with all the applicable code on Corporate Governance Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31st December 2006, except for the deviation from provision A.2.1 of the CG Code in respect of segregation of the roles of chairman and chief executive officer and the deviation from provision A.4.2 of the CG Code in respect of retirement and rotation of each director in every three years. Such deviations will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31st December 2006.

BOARD OF DIRECTORS

The principal focus of the Board is on the overall strategic development of the Group. The Board also monitors the financial performance and the internal controls of the Group's business operations.

The Board of Directors of the Company comprises:

Executive Directors:

Mr. Lao Yuan Yi, Chairman
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

The Board comprises of four executive directors and four non-executive directors. Of the four non-executive directors, three of them are independent non-executive directors that represent more than one-third of the Board. In addition, two of the non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board.

The Company does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company's Articles to appoint any person as a director either to fill a causal vacancy on or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their professional qualifications and experience. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

CORPORATE GOVERNANCE REPORT

The non-executive directors serve an important function of ensuring and monitoring the basis for an effective corporate governance framework. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation or confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent.

The Board meets regularly throughout the year to review the overall strategy and to monitor the operation as well as the financial performance of the Group. Notice of at least 14 days have been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out to all directors within reasonable time before the meeting.

Draft minutes of board meeting are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of board meetings and meetings of board committees are kept by duly appointed secretaries of the respective meetings and all directors have access to board papers and related materials, and are provided with adequate information on a timely manner, which enable the Board to make an informed decision on matters placed before it.

During the year, five board meetings were held and the individual attendance of each director is set out below:

Name of director	Number of meetings attended	Attendance rate
Mr. Lao Yuan Yi	5/5	100%
Mr. Xin Shulin, Steve	2/5	40%
Mr. Yeung Wai Kin	5/5	100%
Mr. Hu Yi Ming	2/5	40%
Mr. Kwok Lam Kwong, Larry, J.P.	4/5	80%
Prof. Woo Chia Wei	5/5	100%
Mr. Liu Ji	1/5	20%
Mr. Yu Qi Hao	5/5	100%

The provision A.4.2 of the CG Code provides that every director should be subject to retirement by rotation at least once every three years. However, according to the Articles of Association of the Company, at each annual general meeting one-third of the directors for the time being shall retire from office. The Articles of Association constitutes a deviation from the CG Code. The management is considering the amendment of the Articles of Association to comply with the code provision A.4.2.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The chairman and chief executive officer of the Company is Mr. Lao Yuan Yi. This deviates from provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.



CORPORATE GOVERNANCE REPORT

The Board believes that vesting the role of both positions in Mr. Lao provides the Group with strong and consistent leadership and allows for more effective planning and execution of long term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

NON-EXECUTIVE DIRECTOR

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

REMUNERATION COMMITTEE

The Remuneration Committee of the Board of Directors was established on 30th June 2005. The majority of the Remuneration Committee members are independent non-executive directors and its current members include:

<i>Executive Directors:</i>	Mr. Lao Yuan Yi
<i>Independent Non-executive Directors:</i>	Mr. Yu Qi Hao Prof. Woo Chia Wei

The terms of reference of the Remuneration Committee were adopted when the Committee was established. The Remuneration 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.

During the year, three meetings were held to discuss the remuneration policies and approve the remuneration packages of the directors of the Company. The individual attendance of each director is set out below:

Name of Committee member	Number of meetings attended	Attendance rate
Mr. Lao Yuan Yi	3/3	100%
Prof. Woo Chia Wei	3/3	100%
Mr. Yu Qi Hao	3/3	100%

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established on 27th December 1998 and its current members include:

<i>Independent Non-executive Directors:</i>	Mr. Yu Qi Hao, Committee Chairman Prof. Woo Chia Wei Mr. Liu Ji
<i>Non-executive Director:</i>	Mr. Kwok Lam Kwong, Larry, J.P.

Each member of the Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, the system of internal controls, risk management and the effectiveness and objectivity of the audit process.

During the year ended 31st December 2006, the Audit Committee has reviewed the annual and interim consolidated financial statements, including the Group's accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee has also discussed with the Group's internal auditor and considers the system of internal control of the Group to be effective and that the Group has adopted the necessary control mechanisms to its financial, operational, statutory compliance and risk management functions.

During the year, three meetings were held and the individual attendance of each director is set out below:

Name of Committee member	Number of meetings attended	Attendance rate
Mr. Yu Qi Hao	3/3	100%
Prof. Woo Chia Wei	3/3	100%
Mr. Kwok Lam Kwong, Larry, J.P.	3/3	100%
Mr. Liu Ji	1/3	33%

AUDITOR'S REMUNERATION

For the year ended 31st December 2006, PricewaterhouseCoopers ("PWC"), the external auditor of the Company, has charged approximately HK\$1,990,000 for audit and related services and HK\$107,000 for other non-audit services – taxation services.



Auditor's Report

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong
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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF FIRST SHANGHAI INVESTMENTS LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of First Shanghai Investments Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 20 to 86, which comprise the consolidated and Company balance sheets as at 31st December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

AUDITOR'S REPORT

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 20th April 2007



Consolidated Income Statement

For the year ended 31st December 2006

	Note	2006 HK\$'000	Restated 2005 HK\$'000
Continuing operations:			
Revenue	5	1,319,289	1,148,462
Cost of sales		(1,004,840)	(996,911)
Gross profit		314,449	151,551
Other gains/(losses) – net	6	28,461	(1,886)
Selling and distribution costs		(13,323)	(4,258)
Administrative expenses		(225,928)	(158,030)
Operating profit/(loss)	5 & 7	103,659	(12,623)
Finance costs	8	(20,585)	(8,409)
Share of profits less losses of			
Associated companies	21	(2,404)	36,331
Jointly controlled entities	22	4,418	17,527
Profit before taxation		85,088	32,826
Taxation	9(a)	(16,618)	(3,637)
Profit for the year from continuing operations		68,470	29,189
Non-current assets classified as held for sale and discontinued operations:			
Profit for the year from non-current assets classified as held for sale and discontinued operations	36	161,317	40,961
Profit for the year		229,787	70,150
Attributable to:			
Shareholders of the Company		236,573	76,320
Minority interests		(6,786)	(6,170)
	10	229,787	70,150
Basic earnings per share for profit attributable to shareholders of the Company during the year			
– Continuing operations		HK 6.33 cents	HK 3.01 cents
– Non-current assets classified as held for sale and discontinued operations		HK 13.58 cents	HK 3.48 cents
	11	HK 19.91 cents	HK 6.49 cents
Diluted earnings per share for profit attributable to shareholders of the Company during the year			
– Continuing operations		HK 6.21 cents	HK 2.97 cents
– Non-current assets classified as held for sale and discontinued operations		HK 13.32 cents	HK 3.43 cents
	11	HK 19.53 cents	HK 6.40 cents
Dividends	12	29,846	17,758

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Balance Sheets

As at 31st December 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets					
Intangible assets	16	3,393	3,893	–	–
Property, plant and equipment	17	268,340	262,203	67	155
Investment properties	18	39,828	19,260	–	–
Leasehold land and land use rights	19	67,478	66,377	–	–
Investments in subsidiaries	20	–	–	91,488	88,828
Investments in associated companies	21	297,570	276,260	–	–
Investments in jointly controlled entities	22	72,336	72,209	11,793	11,793
Deferred tax assets	35	1,231	603	–	–
Available-for-sale financial assets	23	115,033	63,433	62,918	17,523
Loans receivable	24	28,266	23,027	11,305	11,873
		<u>893,475</u>	<u>787,265</u>	<u>177,571</u>	<u>130,172</u>
Current assets					
Inventories	25	18,892	18,531	–	–
Loans and advances	26	206,961	97,295	–	–
Trade receivables	27	157,563	317,710	–	–
Other receivables, prepayments and deposits	28	180,794	56,987	2,967	3,347
Amounts due from subsidiaries		–	–	1,093,983	869,631
Amounts due from associated companies		–	–	252	–
Tax recoverable	9(b)	374	4,003	–	–
Financial assets at fair value through income statement	29	157,904	80,062	–	–
Cash and cash equivalents	30	476,142	149,990	116,258	3,737
		<u>1,198,630</u>	<u>724,578</u>	<u>1,213,460</u>	<u>876,715</u>
Non-current assets classified as held for sale and discontinued operations	36	–	412,367	–	112,378
		<u>1,198,630</u>	<u>1,136,945</u>	<u>1,213,460</u>	<u>989,093</u>
Current liabilities					
Trade and other payables	31	224,258	331,167	32,035	14,307
Amount due to subsidiaries		–	–	145,354	161,201
Taxation payable	9(b)	24,242	1,447	–	–
Borrowings	32	2,989	78,353	–	28,000
		<u>251,489</u>	<u>410,967</u>	<u>177,389</u>	<u>203,508</u>
Liabilities directly associated with non-current assets classified as held for sale and discontinued operations	36	–	11,989	–	–
		<u>251,489</u>	<u>422,956</u>	<u>177,389</u>	<u>203,508</u>
Net current assets		<u>947,141</u>	<u>713,989</u>	<u>1,036,071</u>	<u>785,585</u>



BALANCE SHEET

As at 31st December 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Total assets less current liabilities		1,840,616	1,501,254	1,213,642	915,757
Non-current liabilities					
Deferred tax liabilities	35	496	516	–	–
Borrowings	32	144,449	87,278	–	–
		144,945	87,794	–	–
Net assets		1,695,671	1,413,460	1,213,642	915,757
Equity					
Share capital	33	238,773	236,406	238,773	236,406
Reserves	34	1,383,640	1,104,767	974,869	679,351
Capital and reserves attributable to the Company's shareholders		1,622,413	1,341,173	1,213,642	915,757
Minority interests		73,258	72,287	–	–
Total equity		1,695,671	1,413,460	1,213,642	915,757

On behalf of the Board

Lao Yuan Yi
Director

Yeung Wai Kin
Director

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31st December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Net cash (outflow)/inflow from operating activities	37(a)	(167,021)	16,552
Hong Kong profits tax paid		(380)	(9,125)
Overseas taxation paid		(1,097)	(1,021)
		<hr/>	<hr/>
Net cash (used in)/generated from operating activities		<u>(168,498)</u>	<u>6,406</u>
Cash flows from investing activities			
Interest received		15,598	1,904
Dividends received from jointly controlled entities and associated companies		7,770	8,276
Dividends received from listed investments		2,965	660
Purchase of property, plant and equipment		(51,275)	(151,057)
Proceeds from disposal of property, plant and equipment		16,884	285
Purchase of investment properties		(8,328)	–
Purchase of leasehold land and land use rights		(1,447)	–
Increase in investments in subsidiaries		–	(4,973)
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	37(c)	23,514	(628)
Proceeds from disposal of partial interest in an associated company		–	57,720
Purchase of available-for-sale financial assets		(17,788)	(7,800)
Proceeds from disposal of available-for-sale financial assets		–	6,732
Purchase of non-current assets classified as held for sale and discontinued operations		(30,999)	(40,031)
Proceeds from disposal of non-current assets classified as held for sale and discontinued operations		629,068	–
Loans receivable made to a third party		(5,376)	(959)
		<hr/>	<hr/>
Net cash generated from/(used in) investing activities		<u>580,586</u>	<u>(129,871)</u>



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from financing activities	37(b)		
Interest paid		(20,018)	(7,894)
Dividend paid		(41,635)	(11,737)
Issue of ordinary shares and exercise of share options		3,753	2,792
New short term loans from third parties		–	31,171
New short term bank loans		6,475	56,293
New long term bank loans		144,449	87,278
Repayment of short term loans from third parties		(31,171)	–
Repayment of short term bank loans		(50,668)	(64,103)
Repayment of short term bank loans directly associated with non-current assets classified as held for sale and discontinued operations		(11,989)	–
Repayment of bank overdrafts		–	(19,882)
Repayment of long term bank loans		(87,278)	–
Net cash (used in)/generated from financing activities		(88,082)	73,918
Net increase/(decrease) in cash and cash equivalents		324,006	(49,547)
Cash and cash equivalents at 1st January		149,990	201,972
Exchanges gain/(loss) on cash and cash equivalents		2,146	(2,435)
Cash and cash equivalents at 31st December		476,142	149,990
Analysis of balances of cash and cash equivalents			
Cash at bank and in hand		197,269	107,803
Short term bank deposits			
– secured		15,000	15,000
– unsecured		263,873	27,187
Cash and cash equivalents as above		476,142	149,990

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2006

	Attributable to shareholders of the Company									Minority interests	Total
	Share capital	Share premium	Employee share-based compensation reserve	Capital redemption reserve	Capital reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2006	236,406	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	72,287	1,413,460
Issue of new shares	2,367	1,386	-	-	-	-	-	-	-	-	3,753
Employee share option benefits	-	-	13,990	-	-	-	-	-	-	-	13,990
Exchange reserve realised upon disposal of a subsidiary	-	-	-	-	-	-	-	1,022	-	-	1,022
Capital reserve realised upon disposal of jointly controlled entities	-	-	-	35,279	-	-	-	(7,699)	(35,308)	-	(7,728)
Share of post acquisition reserves of associated companies	-	-	-	28,212	-	-	-	-	-	-	28,212
Fair value gain of available-for-sale financial assets	-	-	-	-	-	-	36,153	-	-	-	36,153
Currency translation differences	-	-	-	(760)	-	-	-	11,660	-	7,781	18,681
Transfer from retained earnings	-	-	-	5,854	-	-	-	-	(5,854)	-	-
Profit for the year	-	-	-	-	-	-	-	-	236,573	(6,786)	229,787
2005 dividend paid to a minority shareholder by a subsidiary	-	-	-	-	-	-	-	-	-	(24)	(24)
2005 final dividend paid	-	-	-	-	-	-	-	-	(17,758)	-	(17,758)
2006 interim dividend paid	-	-	-	-	-	-	-	-	(23,877)	-	(23,877)
Balance at 31st December 2006	238,773	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	73,258	1,695,671
Retained by:											
Company and subsidiaries	238,773	597,406	16,498	32,055	14,006	12,262	41,272	16,129	245,327	73,258	1,286,986
Associated companies	-	-	-	132,144	-	-	-	958	130,246	-	263,348
Jointly controlled entities	-	-	-	165	-	-	-	4,933	140,239	-	145,337
Balance at 31st December 2006	238,773	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	73,258	1,695,671



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the year ended 31st December 2006

	Attributable to shareholders of the Company									Minority interests	Total
	Employee share-based compensation			Capital redemption reserve	Assets revaluation reserve	Investment revaluation reserve	Exchange fluctuation reserve	Retained earnings			
	Share capital	Share premium	sation reserve	reserve	reserve	reserve	reserve	reserve			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2005	234,738	594,896	–	76,094	14,006	12,670	32,392	9,387	334,462	86,806	1,395,451
Issue of new shares	1,668	1,124	–	–	–	–	–	–	–	–	2,792
Employee share option benefits	–	–	2,508	–	–	–	–	–	–	–	2,508
Acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	(6,443)	(6,443)
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	(1,422)	(1,422)
Capital reserve realised upon disposal of an associated company	–	–	–	41,011	–	–	–	–	(36,698)	–	4,313
Share of post acquisition reserves of associated companies	–	–	–	(21,637)	–	–	–	–	–	–	(21,637)
Fair value loss upon reclassification	–	–	–	–	–	(408)	–	–	–	–	(408)
Fair value loss of available-for-sale financial assets	–	–	–	–	–	–	(27,273)	–	–	–	(27,273)
Currency translation differences	–	–	–	–	–	–	–	7,650	–	(484)	7,166
Transfer from retained earnings	–	–	–	311	–	–	–	–	(311)	–	–
Profit for the year	–	–	–	–	–	–	–	–	76,320	(6,170)	70,150
2004 final dividend paid	–	–	–	–	–	–	–	–	(11,737)	–	(11,737)
Balance at 31st December 2005	236,406	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	72,287	1,413,460
Retained by:											
Company and subsidiaries	236,406	596,020	2,508	48,339	14,006	12,262	5,119	14,120	58,256	72,287	1,059,323
Associated companies	–	–	–	47,245	–	–	–	1,463	132,650	–	181,358
Jointly controlled entities	–	–	–	195	–	–	–	1,454	171,130	–	172,779
Balance at 31st December 2005	236,406	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	72,287	1,413,460

The notes on pages 27 to 86 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

First Shanghai Investments Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in securities trading and investment, corporate finance and stockbroking, container transportation and freight forwarding services, sales of motor vehicle meters, hotel operation, investment holding, property holding and management.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK\$'000), unless otherwise stated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accounting policies and methods of computation used in the preparation of these consolidated financial statements are consistent with those used in the 2005 consolidated financial statements except that the Group has changed its revenue recognition policy (see Note 2.1(d) below) and certain of its other accounting policies following its adoption of the new or revised Standards, amendments and interpretations to the published Standards which are relevant to its operations. The adoption of these new or revised Standards, amendments and interpretations did not result in any substantial changes to the Group's accounting policies.

The consolidated financial statements of First Shanghai Investments Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, buildings, available-for-sale financial assets, financial assets and financial liabilities at fair value through income statement.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Where necessary, certain comparative figures have been reclassified to conform to the current year's presentation.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)*

- (a) Standards, amendments and interpretations to existing Standards that are not yet effective in 2006 and have not been early adopted by the Group

The Group has not early adopted the following Standards, amendments and interpretations to existing Standards that have been issued but are not yet effective in 2006. The adoption of such Standards, amendments and interpretations will not result in substantial changes to the Group's accounting policies.

• HKAS 1 (Amendment)	Capital Disclosures
• HKFRS 7	Financial Instruments: Disclosures
• HKFRS 8	Operating Segments
• HK(IFRIC) – Int 8	Scope of HKFRS 2
• HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
• HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
• HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

- (b) Interpretation to existing Standards that are not yet effective in 2006 and not relevant to the Group's operations

The following interpretations to existing Standards have been published that are mandatory for the Group's accounting periods beginning on or after 1st May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC) – Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1st March 2006). HK(IFRIC) – Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. As none of the group entities have a currency of a hyperinflationary economy as its functional currency, HK(IFRIC) – Int 7 is not relevant to the Group's operations; and
- HK(IFRIC) – Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008). HK(IFRIC) – Int 12 sets out general principles on recognising and measuring the obligations and related rights in service concession arrangements, which involve private sector participation in the development, financing, operation and maintenance of government infrastructure. Since the Group is not involved in such arrangements, HK(IFRIC) – Int 12 is not relevant to the Group's operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)*

- (c) Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations or not having significant impact on the Group's consolidated financial statements

The following Standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations or not having significant impact on the Group's consolidated financial statements:

- HKAS 19 (Amendment) Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
- HKAS 21 (Amendment) New Investment in a Foreign Operation
- HKAS 39 (Amendment) Cash Flow Hedge Accounting of Forecast Intragroup Transactions
- HKAS 39 (Amendment) The Fair Value Option
- HKAS 39 and HKFRS 4 (Amendment) Financial Guarantee Contracts
- HKFRS 1 (Amendment) First-time Adoption of Hong Kong Financial Reporting Standards
- HKFRS 6 (Amendment) Exploration for and Evaluation of Mineral Resources
- HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease
- HK(IFRIC) – Int 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
- HK(IFRIC) – Int 6 Liabilities arising from Participating in a Specific Market – Waste, Electrical and Electronic Equipment

- (d) Change in revenue recognition policy

In previous years, sale proceeds and the related cost of sales of financial assets at fair value through income statement were presented in the consolidated income statement within revenue and cost of sales respectively, in accordance with the then Group's accounting policy.

In current year, the Group has revised the accounting policy in order to comply more fully with HKAS 39 and to conform with market practice, whereby the net gains/(losses) on disposal of financial assets at fair value through income statement are recognised in the consolidated income statement within revenue.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.1 Basis of preparation** *(continued)*(d) Change in revenue recognition policy *(continued)*

The effects of the change in accounting policy have been accounted for retrospectively with comparative figures restated. The specific line items affected are as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Decrease in revenue	(282,182)	(106,266)
Decrease in cost of sales	345,815	122,928
Decrease in other gains/(losses) – net	(63,633)	(16,662)
Effect on net profit	–	–
Effect on basic and fully diluted earnings per share		
– Continuing operations	–	–
– Non-current assets classified as held for sale and discontinued operations	–	–
	–	–

This change in accounting policy does not have an impact on the results of the Group in respect of the current and prior years.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31st December.

(a) *Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.2 Consolidation** *(continued)**(b) Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group are recorded in the consolidated income statement.

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (Note 2.7).

The Group's share of its associated companies, post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

(d) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.3 Segment reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 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 Hong Kong 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 recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through income statement are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale 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;
- (ii) income and expenses for each income statement 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.4 Foreign currency translation** *(continued)**(c) Group companies (continued)*

- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to shareholders' equity. When a foreign operation is partially disposed or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement 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.

2.5 Property, plant and equipment*(a) Buildings in Hong Kong*

In previous years the Group carried its buildings in Hong Kong at cost or at revalued amounts and revaluation surpluses or deficits are dealt with as movements in the assets revaluation reserve. Effective from 30th September 1995, no further revaluations have been carried out. The Group places reliance on paragraph 80A of HKAS 17, Leases, issued by the HKICPA which provides exemption from the need to make regular revaluations for such assets.

(b) Construction-in-progress

Construction-in-progress comprises hotel, properties under construction, and other property, plant and equipment under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any impairment losses. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into use.

(c) Other property, plant and equipment

Other property, plant and equipment comprise mainly buildings outside Hong Kong, furniture fixtures and equipment, plant and machinery, motor vehicles and trucks are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, 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 income statement during the financial year in which they are incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.5 Property, plant and equipment** *(continued)**(d) Depreciation and amortisation*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Buildings	Over the shorter of the term of the leases or 20 to 40 years
Furniture, fixtures and equipment	15% – 33 $\frac{1}{3}$ %
Plant and machinery	10%
Motor vehicles	20%
Trucks	12.5%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

(e) Gains or losses on disposals

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 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 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.

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 performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.6 Investment properties** *(continued)*

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 recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated 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 consolidated income statement during the financial year in which they are incurred.

Changes in fair values are recognised in the consolidated income statement as part of 'other gains/(losses) – net'.

2.7 Intangible assets*(a) 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/associated companies/jointly controlled entity at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'intangible assets'. Goodwill on acquisition of associated companies and jointly controlled entities is included in 'investments in associated companies' and 'investments in jointly controlled entities' respectively. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trading rights

The trading rights at the Hong Kong Futures Exchange Limited ('trading rights') are recognised as intangible assets on the balance sheet. They have indefinite useful life and are stated at cost less impairment.

(c) Patent

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.8 Impairment of investments in subsidiaries, associated companies, jointly controlled entities and non-financial assets**

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. 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 recognised 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial Assets

The Group classifies its financial assets into the following categories: at fair value through income statement, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through income statement

Financial assets at fair value through income statement are financial assets held for trading. 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 classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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 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 classified as 'loans receivable', 'loans and advances' and 'trade and other receivables' (Note 2.12) 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.

Regular purchases and sales of financial assets 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 income statement. Financial assets carried at fair value through income statement are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets 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 income statement are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.9 Financial Assets** *(continued)*

Gains and losses arising, from changes in the fair value of the 'financial assets at fair value through income statement' category including net gains/(losses) on disposal and remeasurement at fair value, which are recognised in the income statement within 'revenue'; and interest and dividend income, which are presented in the income statement within 'other gains/(losses) – net', in the year in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in income statement, and translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and 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 recognised in equity are included in the consolidated income statement as 'gains and losses from available-for-sale financial assets'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

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 and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 an indicator that 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 income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade receivables is described in Note 2.12.

2.10 Derivative financial instruments

Investments in financial derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Changes in fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.11 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis method. The cost of finished goods and work in progress comprises raw materials, direct labour, shipping costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.12 Trade and other receivables

Trade and other 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 trade and other 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within 'selling and distribution costs'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and distribution costs' in the consolidated income statement.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

2.14 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes,) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.15 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.16 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.17 Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associated companies and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Employee benefits*(a) Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Discretionary bonus

Discretionary bonus is accrued in the year in which the associated services are rendered by employees of the Group.

Liabilities for discretionary bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.18 Employee benefits** *(continued)**(c) Pension obligations*

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

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

(d) Employee share-based compensation

The Group operates an equity-settled, employee share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.20 Contingent liabilities**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

- (a) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (b) Revenue from brokerage and commission, management and consultancy and advisory services rendered and container transportation and freight forwarding services is recognised once the duties under the service contracts are performed and outcome of the transactions can be foreseen with reasonable certainty.
- (c) All transactions related to securities trading are recorded in the financial statements based on trade dates. Accordingly, only those trade dates falling within the accounting year have been taken into account.
- (d) Hotel room income is recognised when services are rendered.
- (e) Operating lease rental income is recognised on a straight-line basis over the lease periods.
- (f) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (g) Dividend income is recognised when the rights to receive payment is established.

2.22 Finance costs

Finance costs that are directly attributable to the acquisition, construction or production of any qualifying asset are capitalised during the period of time is required to complete and prepare the asset for its intended use. Other finance costs are expensed as incurred.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)***2.23 Operating leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.24 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through a continuing use.

2.25 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the year in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT**3.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and price risk), credit risk, liquidity risk and interest rate risk. Risk management is carried out by senior management of the Group under policies approved by the Board of Directors of the Company.

*(a) Market risk**(i) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Hong Kong dollar and Renminbi. Revenue and majority of its operating costs and cost of sales are in Hong Kong dollar and Renminbi basis. No significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations is expected in the foreseeable future.

(ii) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the balance sheet either as available-for-sale financial assets or as financial assets at fair value through income statement. The Group is not exposed to commodity price risk.

(b) Credit risk

The Group has no significant concentrations of credit risk. The carrying amount of trade and other receivables included in the balance sheets represents the Group's maximum exposure to credit risk in relation to its financial assets. The Group has put in place policies to ensure that sales of products and services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group's historical experience in collection of trade and other receivables falls within the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. FINANCIAL RISK MANAGEMENT *(continued)***3.1 Financial risk factors** *(continued)**(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of underlying businesses, senior management of the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group's income and operation cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets, other than cash at banks. The Group's exposure to changes in interest rates is mainly attributable to its bank loans. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

3.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 2 includes a summary of the significant accounting policies used in the preparation of the Group's financial statements. The preparation of financial statements often requires the use of judgements to select specific accounting methods and policies from several acceptable alternatives. Furthermore, significant estimates and assumptions concerning the future may be required in selecting and applying those methods and policies in the financial statements. The Group bases its estimates and judgements on historical experience and various other assumptions that it believes are reasonable under the circumstances. Actual results may differ from these estimates and judgements under different assumptions or conditions.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods used in the preparation of the financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)***(a) Estimated fair value of financial instruments**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on available recent market information such as most recent market transaction price with third parties and the latest available financial information existing at each balance sheet date.

(b) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

(c) Incomes taxes

The Group is subject to income taxes in various jurisdictions. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

(d) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(e) Impairment of available-for-sale financial assets

The Group follows the guidance if HKAS 39 in determining whether an investment in available-for-sale financial assets is impaired. This determination requires significant judgements. In making these judgements, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)***(f) Estimated allowance for doubtful debts**

The Group makes allowance for doubtful debts based on an assessment of the recoverability of loans receivable, loans and advances and trade and other receivables. Allowance is made when there are events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation on the recoverability of loans receivable, loan and advances and trade and other receivables is different from the original estimate, such difference will impact the carrying value of loans receivable, loans and advances and trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(g) Estimated allowance for write-down of inventories to net realisable value

The Group makes allowance for write-down of inventories based on assessment of the net realisable value of existing inventories. Allowance is made if there is an indication that the net realisable value of inventories are lower than the cost. Calculation of net realisable value requires the use of judgement and estimates.

(h) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION

The principal activity of the Company is investment holding. The principal activities of its subsidiaries, associated companies and jointly controlled entities are set out in Notes 20, 21 and 22 to the consolidated financial statements.

The Group has determined the business segments be presented as the primary reporting format and geographical as the secondary reporting format.

Segment assets consist primarily of intangible assets, property, plant and equipment, investment properties, leasehold land and land use rights, inventories, financial assets and operating cash. Segment liabilities comprise operating liabilities and borrowings but exclude taxation and deferred taxation. Capital expenditure comprises additions to property, plant and equipment, investment properties, leasehold land and land use rights.

In respect of geographical segment reporting, sales are based on the country in which the customers are located.

(a) Primary reporting format – business segments

The Group is organised into seven main business segments:

- Securities trading and investment
- Corporate finance and stockbroking
- Container transportation and freight forwarding services
- Hotel operation
- Sales of motor vehicle meters and components
- Investment holding, property holding and management
- Sales of child products

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(continued)***(a) Primary reporting format – business segments** *(continued)*

	Securities trading and investment <i>(see Note (a) below)</i>	Corporate finance and stockbroking	Container transportation and freight forwarding services	Hotel operation <i>(Note 41)</i>	Sales of motor vehicle meters and components	Investment holding, property holding and management	Sales of child products	Group
	2006	2006	2006	2006	2006	2006	2006	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	128,421	145,085	891,057	80,925	37,765	36,036	-	1,319,289
Segment results	101,488	30,866	(14,514)	6,491	(1,098)	(19,574)	-	103,659
Finance costs								(20,585)
Share of profits less losses of								
– Associated companies	4,601	-	-	-	866	(7,871)	-	(2,404)
– Jointly controlled entities	-	-	-	-	-	5,081	(663)	4,418
Profit before taxation								85,088
Taxation								(16,618)
Profit for the year from continuing operations								68,470
Profit for the year from non-current assets classified as held for sale and discontinued operations	-	-	-	-	-	55,489	105,828	161,317
Profit for the year								229,787
Balance sheet								
Segment assets	152,723	379,737	118,449	239,302	36,683	793,700	-	1,720,594
Investments in associated companies	4,601	-	-	-	11,487	281,482	-	297,570
Investments in jointly controlled entities	-	-	-	-	-	50,943	21,393	72,336
Tax recoverable								374
Deferred tax assets								1,231
Total assets								2,092,105
Segment liabilities	865	7,028	12,793	161,280	30,130	159,600	-	371,696
Taxation payable								24,242
Deferred tax liabilities								496
Total liabilities								396,434
Other information								
Capital expenditure	333	1,263	5,028	33,173	228	21,026	-	61,051
Depreciation	319	1,534	10,915	12,550	557	10,986	-	36,861
Amortisation on leasehold land and land use rights	-	-	628	479	2	166	-	1,275

Notes:

- (a) The revenue of securities trading and investment business recognised during the year represents the net gains/(losses) on disposal and remeasurement at fair value of financial assets at fair value through income statement.
- (b) There are no sales or other transactions among the business segments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(continued)***(a) Primary reporting format – business segments** *(continued)*

	Securities trading and investment <i>(see Note (a) below)</i>	Corporate finance and stockbroking	Container transportation and freight forwarding services	Hotel operation	Sales of motor vehicle meters and components	Investment holding, property holding and management	Sales of child products	Group
	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000	Restated 2005 HK\$'000
Revenue	26,359	86,676	953,500	11,793	29,380	40,754	–	1,148,462
Segment results	8,337	18,447	6,951	(16,671)	(3,538)	(26,149)	–	(12,623)
Finance costs								(8,409)
Share of profits less losses of								
– Associated companies	–	–	–	–	(125)	33,615	2,841	36,331
– Jointly controlled entities	–	–	–	–	–	16,380	1,147	17,527
Profit before taxation								32,826
Taxation								(3,637)
Profit for the year from continuing operations								29,189
Profit for the year from non-current assets classified as held for sale and discontinued operations	–	–	–	–	–	–	40,961	40,961
Profit for the year								70,150
Balance sheet								
Segment assets	53,295	317,742	319,233	151,185	29,929	287,384	–	1,158,768
Investments in associated companies	–	–	–	–	10,201	266,059	–	276,260
Investments in jointly controlled entities	–	–	–	–	–	50,956	21,253	72,209
Non-current assets classified as held for sale and discontinued operations	–	–	–	–	–	68,357	344,010	412,367
Tax recoverable								4,003
Deferred tax assets								603
Total assets								1,924,210
Segment liabilities	1,960	28,426	224,280	125,850	22,153	94,129	–	496,798
Liabilities directly associated with non-current assets classified as held for sale and discontinued operations	–	–	–	–	–	11,989	–	11,989
Taxation payable								1,447
Deferred tax liabilities								516
Total liabilities								510,750
Other information								
Capital expenditure	18	1,237	21,654	126,649	537	40,993	–	191,088
Depreciation	37	1,809	9,510	3,332	510	2,930	–	18,128
Amortisation on leasehold land and land use rights	–	–	603	729	2	173	–	1,507

Notes:

- (a) The revenue of securities trading and investment business recognised during the year represents the net gains/(losses) on disposal and remeasurement at fair value of financial assets at fair value through income statement.
- (b) There are no sales or other transactions among the business segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. SEGMENT INFORMATION *(continued)***(b) 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, hotel operation, sales of motor vehicle meters and components and sales of child products

	Revenue 2006 HK\$'000	Segment results 2006 HK\$'000	Total assets 2006 HK\$'000	Capital expenditure 2006 HK\$'000
Hong Kong	265,052	99,838	784,341	1,105
Chinese Mainland	1,053,743	10,456	909,743	59,624
Others	494	(6,635)	26,510	322
	<u>1,319,289</u>	<u>103,659</u>	<u>1,720,594</u>	<u>61,051</u>

Investments in associated
companies

297,570

Investments in jointly
controlled entities

72,336

Tax recoverable

374

Deferred tax assets

1,231

Total assets

2,092,105

	Revenue Restated 2005 HK\$'000	Segment results 2005 HK\$'000	Total assets 2005 HK\$'000	Capital expenditure 2005 HK\$'000
Hong Kong	123,455	28,439	610,226	1,544
Chinese Mainland	1,024,569	(45,631)	502,574	189,526
Others	438	4,569	45,968	18
	<u>1,148,462</u>	<u>(12,623)</u>	<u>1,158,768</u>	<u>191,088</u>

Investments in associated
companies

276,260

Investments in jointly
controlled entities

72,209

Non-current assets classified
as held for sale and
discontinued operations

412,367

Tax recoverable

4,003

Deferred tax assets

603

Total assets

1,924,210

Note:

There are no sales among the geographical segments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6. OTHER GAINS/(LOSSES) – NET

	Group	
	2006	2005
	HK\$'000	HK\$'000
Provision for diminution in value of available-for-sale financial assets (Note 23)	(2,341)	(7,800)
Interest income	15,598	3,993
Dividend income	2,965	660
Investment income, net	16,222	(3,147)
Net fair value gains on investment properties	12,239	1,261
	28,461	(1,886)

7. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Crediting		
Net gain on disposal of interest in subsidiaries	13,897	161
Net gain on disposal of partial interest in an associated company	–	2,966
Recovery of bad debts previously written off	–	161
Net gain on disposal of property, plant and equipment	–	159
Net foreign exchange gain	963	614
Negative goodwill charged to income statement	–	1,470
Charging		
Depreciation	36,861	18,128
Amortisation of leasehold land and land use rights	1,275	1,507
Impairment losses on trading rights and patent	500	–
Impairment losses on goodwill	–	13,667
Direct expense in respect of container transportation and freight forwarding services	888,286	929,338
Cost of inventories	37,348	32,013
Staff costs (Note 13)	195,919	117,622
Operating lease rental in respect of land and buildings	8,514	4,059
Auditors' remuneration	3,087	1,830
Provision for doubtful debts	5,768	3,748
Provision for obsolesce stock	1,663	–
Net loss on deemed disposal of partial interest in an associated company	3,904	–
Net loss on disposal of property, plant and equipment	373	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE COSTS

	Group	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts	19,175	6,453
Interest on other loans	1,410	1,956
	20,585	8,409

9. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

- (a) The amount of taxation charged to the consolidated income statement represents:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current	5,175	3,494
Under-provision in previous years	88	169
Overseas taxation		
Current	11,389	720
Under-provision in previous years	614	–
Deferred taxation (<i>Note 35</i>)	(648)	(746)
Taxation charge	16,618	3,637



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

9. TAXATION *(continued)*

- (a) The amount of taxation charged to the consolidated income statement represents: *(continued)*
The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Profit/(loss) before taxation (net of share of profits less losses of associated companies, jointly controlled entities and non-current assets classified as held for sale and discontinued operations)	83,074	(21,032)
Tax calculated at domestic tax rates applicable to profits in the respective countries	14,538	(3,681)
Effect of different taxation rates in other countries	(3,441)	(520)
Income not subject to taxation	(18,537)	(5,352)
Expenses not deductible for taxation purposes	1,654	4,278
Under-provision in previous years, net	164	165
Utilisation of previously unrecognised tax losses	(262)	–
Unrecognised deferred tax assets	21,795	9,291
Others	707	(544)
Taxation charge	16,618	3,637

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Recoverable		
Hong Kong	162	3,991
Overseas	212	12
	374	4,003
Payable		
Hong Kong	1,998	927
Overseas	22,244	520
	24,242	1,447

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

10. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK\$276,358,000 (2005: HK\$91,920,000).

11. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$236,573,000 (2005: HK\$76,320,000). The basic earnings per share is based on the weighted average number of 1,188,096,023 (2005: 1,175,441,673) shares in issue during the year. The diluted earnings per share is based on 1,211,050,276 (2005: 1,192,483,905) shares which is the weighted average number of shares in issue during the year plus the weighted average number of 22,954,253 (2005: 17,042,232) shares deemed to be issued at no consideration if all outstanding options had been exercised.

12. DIVIDENDS

The dividends paid in 2006 and 2005 were HK\$41,635,000 (HK\$0.035 per ordinary share) and HK\$11,737,000 (HK\$0.01 per ordinary share) respectively. A dividend in respect of the year ended 31 December 2006 of HK\$0.005 (2005: HK\$0.015) per share, amounting to a total final dividend of HK\$5,969,000 (2005: HK\$17,758,000) is to be proposed at the Annual General Meeting on 25th May 2007. These financial statements do not reflect this final dividend payable.

	2006 HK\$'000	2005 HK\$'000
Interim dividend paid of HK\$0.02 (2005: Nil) per ordinary share	23,877	–
Proposed final dividend of HK\$0.005 (2005: HK\$0.015) per ordinary share	5,969	17,758
	29,846	17,758

13. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2006 HK\$'000	2005 HK\$'000
Wages, salaries and allowance	162,131	103,486
Benefits	9,975	6,352
Retirement benefit costs (Note 15)	9,823	5,276
Employees share option benefits (Note 34)	13,990	2,508
	195,919	117,622



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The remuneration of every Director for the year ended 31st December 2006 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Dis-cretionary bonuses HK\$'000	Retirement benefit costs HK\$'000	Employees share option benefits HK\$'000	2006 Total HK\$'000
Executive directors:						
Mr. Lao Yuan Yi	–	2,475	13,978	212	4,724	21,389
Mr. Xin Shulin, Steve	–	1,934	8,173	122	2,442	12,671
Mr. Yeung Wai Kin	–	2,156	9,173	185	2,442	13,956
Mr. Hu Yi Ming	–	608	–	1	–	609
Non-executive director:						
Mr. Kwok Lam Kwong, Larry, J.P.	270	–	–	–	–	270
Independent non-executive director:						
Prof. Woo Hia Wei	270	–	–	–	–	270
Mr. Liu Ji	270	–	–	–	–	270
Mr. Yu Qi Hao (a)	270	–	–	–	–	270

The remuneration of every Director for the year ended 31st December 2005 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Dis-cretionary bonuses HK\$'000	Retirement benefit costs HK\$'000	Employees share option benefits HK\$'000	2005 Total HK\$'000
Executive directors:						
Mr. Lao Yuan Yi	–	2,475	2,580	212	983	6,250
Mr. Xin Shulin, Steve	–	1,817	800	122	508	3,247
Mr. Yeung Wai Kin	–	2,156	1,200	185	508	4,049
Mr. Hu Yi Ming	–	580	–	1	–	581
Non-executive director:						
Mr. Kwok Lam Kwong, Larry, J.P.	270	–	–	–	–	270
Independent non-executive director:						
Prof. Woo Hia Wei	270	–	–	–	–	270
Mr. Liu Ji	270	–	–	–	–	270
Mr. Yu Qi Hao (a)	220	–	–	–	–	220

(a) Appointed on 17th March 2005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

No Directors have waived emoluments in respect of the years ended 31st December 2006 and 2005.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2005: three) Directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2005: two) individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, commission, housing allowances, other allowances and benefits-in-kind	7,742	4,228
Discretionary bonuses	16,857	1,042
Retirement benefit costs	95	172
Employees share option benefits	2,442	508
	27,136	5,950

The emoluments fell within the following bands:

Emolument bands HK\$	Number of individuals	
	2006	2005
2,000,001 – 3,000,000	–	1
3,000,001 – 5,000,000	–	1
5,000,001 – 10,000,000	1	–
10,000,001 – 15,000,000	–	–
15,000,001 – 20,000,000	1	–
	2	2

15. RETIREMENT BENEFIT COSTS

The Group operates defined contribution retirement schemes which are available to Hong Kong employees. The rates of contributions are 5% of basic salary from the employees and 5% to 10% from the employer depending on the length of service of the individuals. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

HK\$226,685 (2005: HK\$140,543) of defined contribution retirement schemes in Hong Kong was utilised during the year. There is no outstanding balance as at the balance sheet dates of 2006 and 2005 available to reduce the contributions payable in the future years.

Contributions totalling HK\$105,000 (2005: HK\$88,000) were payable to the retirement scheme at the year-end and are included in accounts payable.

The Group also contributes retirement plans for its employees in the Chinese Mainland and overseas. The rates of contributions are approximately 17% to 28% of basic salary from the Group for its employees in the Chinese Mainland and approximately 12% of basic salary from the Group for its overseas employees.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. INTANGIBLE ASSETS**Group**

	Goodwill <i>HK\$'000</i>	Trading rights and patent <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2006	16,660	2,958	19,618
Disposals	(4,060)	(1,320)	(5,380)
At 31st December 2006	12,600	1,638	14,238
Accumulated amortisation			
At 1st January 2006	13,667	2,058	15,725
Disposals	(4,060)	(1,320)	(5,380)
Impairment losses	–	500	500
At 31st December 2006	9,607	1,238	10,845
Net book value			
At 31st December 2006	2,993	400	3,393
	Goodwill <i>HK\$'000</i>	Trading rights and patent <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost			
At 1st January 2005	16,660	5,805	22,465
Disposals	–	(2,869)	(2,869)
Exchange differences	–	22	22
At 31st December 2005	16,660	2,958	19,618
Accumulated amortisation			
At 1st January 2005	–	3,824	3,824
Charge for the year	–	1,096	1,096
Disposals	–	(2,869)	(2,869)
Impairment losses	13,667	–	13,667
Exchange differences	–	7	7
At 31st December 2005	13,667	2,058	15,725
Net book value			
At 31st December 2005	2,993	900	3,893

Impairment test for goodwill

Goodwill acquired through business combination has been allocated to the lowest level within at which the goodwill is monitored by internal management purpose for impairment testing.

The recoverable amount of the lowest level of cash-generating unit has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five to ten years. The discount rate applied to cash flow projection is 10%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT**(a) Group**

	Buildings		Furniture, fixtures and equipment	Plant and machinery	Motor vehicles and trucks	Construction- in-progress	Total
	Long-term leases in Hong Kong HK\$'000	Medium-term leases outside Hong Kong HK\$'000					
Cost or valuation							
At 1st January 2006	22,664	150,102	63,983	39,193	69,367	9,014	354,323
Additions	-	2,347	15,546	9	2,194	31,179	51,275
Disposals	-	(29)	(10,339)	(3,951)	(11,855)	(126)	(26,300)
Disposal of subsidiaries (Note 37(c))	-	-	(8,689)	-	-	-	(8,689)
Reclassification	-	33,628	947	(644)	(290)	(33,641)	-
Exchange differences	-	6,056	1,710	1,532	2,416	484	12,198
At 31st December 2006	<u>22,664</u>	<u>192,104</u>	<u>63,158</u>	<u>36,139</u>	<u>61,832</u>	<u>6,910</u>	<u>382,807</u>
Accumulated depreciation							
At 1st January 2006	5,923	11,050	25,758	8,926	40,463	-	92,120
Charge for the year	566	8,644	19,843	2,440	5,368	-	36,861
Disposals	-	(5)	(2,796)	(1,298)	(4,933)	-	(9,032)
Disposal of subsidiaries (Note 37(c))	-	-	(8,245)	-	-	-	(8,245)
Reclassification	-	-	87	-	(87)	-	-
Exchange differences	-	455	483	359	1,466	-	2,763
At 31st December 2006	<u>6,489</u>	<u>20,144</u>	<u>35,130</u>	<u>10,427</u>	<u>42,277</u>	<u>-</u>	<u>114,467</u>
Net book value							
At 31st December 2006	<u>16,175</u>	<u>171,960</u>	<u>28,028</u>	<u>25,712</u>	<u>19,555</u>	<u>6,910</u>	<u>268,340</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT *(continued)***(a) Group** *(continued)*

	Buildings						
	Long-term leases in Hong Kong HK\$'000	Medium-term leases outside Hong Kong HK\$'000	Furniture, fixtures and equipment HK\$'000	Plant and machinery HK\$'000	Motor vehicles and trucks HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
Cost or valuation							
At 1st January 2005	25,840	20,204	30,869	10,157	58,236	70,913	216,219
Additions	–	242	34,661	27,364	11,207	117,614	191,088
Disposals	–	–	(175)	(36)	(947)	–	(1,158)
Disposal of subsidiaries (Note 37(c))	–	–	(53)	–	–	–	(53)
Transfer to non-current assets classified as held for sale and discontinued operations (Note 36)	–	–	–	–	–	(51,481)	(51,481)
Transfer to investment properties (Note 18)	(3,176)	–	–	–	–	–	(3,176)
Reclassification	–	129,212	(1,538)	1,538	–	(129,212)	–
Exchange differences	–	444	219	170	871	1,180	2,884
At 31st December 2005	<u>22,664</u>	<u>150,102</u>	<u>63,983</u>	<u>39,193</u>	<u>69,367</u>	<u>9,014</u>	<u>354,323</u>
Accumulated depreciation							
At 1st January 2005	6,072	8,334	17,922	5,798	36,834	–	74,960
Charge for the year	677	2,561	8,223	2,729	3,938	–	18,128
Disposals	–	–	(128)	(25)	(879)	–	(1,032)
Transfer to investment properties (Note 18)	(826)	–	–	–	–	–	(826)
Reclassification	–	–	(327)	327	–	–	–
Exchange differences	–	155	68	97	570	–	890
At 31st December 2005	<u>5,923</u>	<u>11,050</u>	<u>25,758</u>	<u>8,926</u>	<u>40,463</u>	<u>–</u>	<u>92,120</u>
Net book value							
At 31st December 2005	<u>16,741</u>	<u>139,052</u>	<u>38,225</u>	<u>30,267</u>	<u>28,904</u>	<u>9,014</u>	<u>262,203</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. PROPERTY, PLANT AND EQUIPMENT *(continued)***(a) Group** *(continued)*

The analysis of the cost or valuation at 31st December 2006 of the above assets is as follows:

	Buildings		Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles and trucks <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Long-term	Medium-term					
	leases in	leases outside					
	Hong Kong <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>					
At cost	11,539	192,104	63,158	36,139	61,832	6,910	371,682
At professional valuation – 1994	11,125	–	–	–	–	–	11,125
	<u>22,664</u>	<u>192,104</u>	<u>63,158</u>	<u>36,139</u>	<u>61,832</u>	<u>6,910</u>	<u>382,807</u>

The analysis of the cost or valuation at 31st December 2005 of the above assets is as follows:

	Buildings		Furniture, fixtures and equipment <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles and trucks <i>HK\$'000</i>	Construction- in-progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
	Long-term	Medium-term					
	leases in	leases outside					
	Hong Kong <i>HK\$'000</i>	Hong Kong <i>HK\$'000</i>					
At cost	11,539	150,102	63,983	39,193	69,367	9,014	343,198
At professional valuation – 1994	11,125	–	–	–	–	–	11,125
	<u>22,664</u>	<u>150,102</u>	<u>63,983</u>	<u>39,193</u>	<u>69,367</u>	<u>9,014</u>	<u>354,323</u>

The carrying amount of the land and buildings in Hong Kong under long-term leases would have been HK\$9,890,000 (2005: HK\$10,222,000) had they been stated at cost less accumulated depreciation.

(b) Company

	Motor vehicles	
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Cost		
At 1st January	<u>442</u>	<u>442</u>
Accumulated depreciation		
At 1st January	287	199
Charge for the year	<u>88</u>	<u>88</u>
At 31st December	<u>375</u>	<u>287</u>
Net book value		
At 31st December	<u>67</u>	<u>155</u>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. INVESTMENT PROPERTIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Valuation at 1st January	19,260	10,950
Additions	8,329	–
Transfer from leasehold land and land use rights (<i>Note 19</i>)	–	5,107
Transfer from property, plant and equipment (<i>Note 17</i>)	–	2,350
Net fair value gains	12,239	853
	<hr/>	<hr/>
Valuation at 31st December	39,828	19,260
	<hr/>	<hr/>

The investment properties were revalued at 31 December 2006, on an open market value basis by independent, professionally qualified valuers, Chung, Chan & Associates.

The Group's interests in investment properties at valuation are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
In Hong Kong, held on		
– Leases over 50 years	6,000	6,000
Outside Hong Kong, held on		
– Leases between 10 to 50 years	18,878	–
– Leases over 50 years	14,950	13,260
	<hr/>	<hr/>
	39,828	19,260
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movement in the net book value thereof is analysed as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Net book value at 1st January	66,377	89,177
Additions	1,447	–
Amortisation	(1,275)	(1,507)
Transfer to investment properties (<i>Note 18</i>)	–	(5,107)
Transfer to non-current assets classified as held for sale and discontinued operations (<i>Note 36</i>)	–	(16,876)
Exchange differences	929	690
	<hr/>	<hr/>
Net book value 31st December	67,478	66,377

The Group's interests in leasehold land and land use rights at their net book value are analysed as follows:

	2006	2005
	HK\$'000	HK\$'000
In Hong Kong, held on		
– Leases over 50 years	36,408	36,449
Outside Hong Kong, held on		
– Leases between 10 to 50 years	31,070	29,928
	<hr/>	<hr/>
	67,478	66,377



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006 HK\$'000	2005 HK\$'000
Unlisted investments, at cost	38,374	34,280
Loan to a subsidiary	70,000	70,000
Less: accumulated impairment losses	(16,886)	(15,452)
	91,488	88,828

The loan to a subsidiary is unsecured, interest bearing at prime rate plus 1% and not repayable with the next twelve months as at the balance sheet date. The effective interest rate at 31st December 2006 was prime rate quoted by The Hong Kong and Shanghai Banking Corporation Limited plus 1%. The carrying value of the loan to a subsidiary approximates its fair value as at 31st December 2006.

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

Name	Place of incorporation/ establishment (see note (b) below)	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2006	2005	
Shares held directly:					
First Shanghai Direct Investments Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding
First Shanghai Finance Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Money lending
First Shanghai Investment Management Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Financial advisory
First Shanghai Management Services Limited	Hong Kong	1,200,000 ordinary shares of HK\$1 each	100%	100%	Agency, management and secretarial services
First Shanghai Nominees Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Nominee services
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares of HK\$1 each	100%	100%	Property investment
P.I. Investments Australia Pty. Limited	Australia	2,000,000 ordinary shares of A\$1 each	100%	100%	Securities investment
UAT Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment <i>(see note (b) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2006	2005	
Shares held indirectly:					
Addsmart Investments Limited	British Virgin Islands	1 ordinary shares of US\$1 each	100%	–	Securities investment
Atlas Securities Pty. Limited	Australia	2 ordinary shares of A\$1 each	100%	100%	Securities investment
Billion Bright Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Securities investment
Bonvision International Consulting Limited	Chinese Mainland	HK\$1,000,000	100%	100%	Financial consultancy
Bonvision Technology (Beijing) Limited	Chinese Mainland	HK\$500,000	100%	100%	Financial consultancy
Bonvision Technology (Shanghai) Limited	Chinese Mainland	US\$200,000	100%	100%	Financial consultancy
Bright Shining Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Property investment
Changchun FAW Sihuan Betung Instrument Company Limited	Chinese Mainland	RMB7,700,000	55%	55%	Manufacture of autoparts
Clear Profit Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Property investment
Crimson Pharmaceutical (Shanghai) Company Limited	Chinese Mainland	US\$1,400,000	51%	51%	Pharmaceutical services
CVIC International Container Transportation Company Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100%	100%	Investment holding
Draco Equity Investment Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Securities investment



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment <i>(see note (b) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2006	2005	
Shares held indirectly: <i>(continued)</i>					
Ever Achieve Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
First Information Technology Limited	British Virgin Islands	10,000 ordinary shares of US\$0.01 each	78.21%	78.21%	Investment holding
First Shanghai Assets (Kunshan) Company Limited	Chinese Mainland	US\$10,000,000	100%	–	Property development
First Shanghai Capital Limited	Hong Kong	17,000,000 ordinary shares of HK\$1 each	100%	100%	Corporate finance
First Shanghai Financial Holding Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
First Shanghai Futures Limited	Hong Kong	8,000,000 ordinary shares of HK\$1 each	100%	100%	Futures broking
First Shanghai Securities Limited	Hong Kong	65,000,000 ordinary shares of HK\$1 each	100%	100%	Stockbroking
First Shanghai Venture Capital Management Limited	Chinese Mainland	HK\$1,000,000	100%	100%	Venture capital & management
Fu Hai Digital Science & Technology (Shanghai) Company Limited	Chinese Mainland	US\$5,000,000	100%	100%	Investment holding
Golad Resources Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment holding
GTI Financial Information Limited	Hong Kong	429,999,999 ordinary shares of HK\$0.01 each	78.21%	65.70%	Investment holding
Kunshan Traders Park Hotel Company Limited	Chinese Mainland	US\$12,000,000	65%	65%	Hotel operation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment <i>(see note (b) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2006	2005	
Shares held indirectly: <i>(continued)</i>					
Leading Business Limited	British Virgin Islands	1,450,000 ordinary shares of US\$1 each	100%	100%	Property investment
Perfect Honour Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Property investment
P.H.A Investments Pty. Limited	Australia	60,000 ordinary shares of A\$2 each	78.6%	78.6%	Investment holding
P.H.A Trading Pty. Limited	Australia	2 ordinary shares of A\$0.5 each	78.6%	78.6%	Investment holding
Public Holdings (Australia) Limited (Listed in Sydney, Australia)	Australia	14,979,000 ordinary shares of A\$0.125 each	78.6%	78.6%	Securities investment
Shanghai Huan Ya Insurance Agency Company Limited	Chinese Mainland	RMB20,000,000	62%	62%	Insurance broker
Shanghai Transvision Network Application Service Company Limited	Chinese Mainland	US\$1,800,000	100%	100%	Investment holding
Shanghai Yi Hang Logistic Network Management Limited	Chinese Mainland	RMB2,000,000	75.48%	75.48%	Logistics services
Shanghai Zhong Chuang International Container Storage & Transportation Company Limited	Chinese Mainland	US\$11,025,000	62%	62%	Container transportation and freight forwarding
Staying Power International Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
Talent Creation Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	–	Property investment



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. INVESTMENTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment <i>(see note (b) below)</i>	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2006	2005	
Shares held indirectly: <i>(continued)</i>					
Yin Zin Company Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Investment holding
Yongzhou Chang Yi Car Electronics Limited Company	Chinese Mainland	RMB1,999,300	51%	51%	Manufacture of autoparts
Zhongshan Shunshine Resort Limited	Chinese Mainland	RMB80,000,000	80%	–	Property development

Notes:

- (a) The above table includes the subsidiaries of the Company which, in the opinion of the Directors, principally affect the results of the year or form a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.
- (b) The subsidiaries operate principally in their places of incorporation.

21. INVESTMENTS IN ASSOCIATED COMPANIES

	Group	
	2006 HK\$'000	2005 HK\$'000
Carrying value at 1st January	276,260	370,798
Share of associated companies' results		
– (loss)/profit before taxation	(891)	37,094
– taxation	(1,513)	(763)
Share of associated companies' reserves	28,212	(17,325)
Dividend received	–	(5,184)
Increase in investments in associated companies	–	1,172
Disposal of partial interest of an associated company	–	(54,754)
Deemed disposal of partial interest of an associated companies	(3,904)	–
Transfer to available-for-sale financial assets (Note 23)	–	(55,002)
Exchange differences	(594)	224
Carrying value at 31st December	297,570	276,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INVESTMENTS IN ASSOCIATED COMPANIES *(continued)*

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

Name	Place of incorporation/ establishment	Particulars of issued share capital/ registered capital	Effective interests held		Principal activities
			2006	2005	
China Assets (Holdings) Limited ("China Assets") (see note (a) below)	Hong Kong	74,398,160 ordinary shares of US\$0.1 each	33.23%	33.82%	Investment holding
China Assets Investment Management Limited	Hong Kong	2,000 ordinary shares of HK\$1 each	28%	28%	Management and investment advisory services
Yangfeng Visteon Betung Automotive Instrumentation Company Limited	Chinese Mainland	RMB61,950,000	30%	30%	Sales of motor vehicle meters and components
Zhejiang Shaohong Instrument Company Limited	Chinese Mainland	RMB3,550,000	30%	30%	Sales of motor vehicle meter and components
First Shanghai Fund Management Limited	British Virgin Islands	100 ordinary shares of US\$1 each	20%	20%	Fund management

Note:

(a) China Assets operates principally in Hong Kong and is listed on The Stock Exchange of Hong Kong Limited.

The Groups' interest in its principal associated company is given as follows:

Name	2006				2005			
	Assets HK\$'000	Liabilities HK\$'000	Revenue HK\$'000	Loss HK\$'000	Assets HK\$'000	Liabilities HK\$'000	Revenue HK\$'000	Profit HK\$'000
China Assets	262,299	875	1,715	7,524	265,998	1,111	6,752	33,615



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying value at 1st January	72,209	354,307	11,793	124,171
Share of jointly controlled entities' results				
– profit before taxation	13,052	20,604	–	–
– taxation	(8,634)	(3,077)	–	–
Dividend received	(7,770)	(3,092)	–	–
Transfer to non-current assets classified as held for sale and discontinued operations	–	(297,433)	–	(112,378)
Exchange differences	3,479	900	–	–
Carrying value at 31st December	72,336	72,209	11,793	11,793

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

Name	Place of incorporation/ establishment and operation	Effective interest in ownership/voting power/profit sharing		Principal activities
		2006	2005	
Geoby International Holdings Limited ("Geoby") (see note (a) below)	Cayman Islands	–	49.5%	Investment holding
Goodbaby Bairuikang Hygienic Products Company Limited ("Goodbaby Bairuikang") (see note (b) below)	Chinese Mainland	50%	50%	Production of diapers and related hygienic products
Shanghai Zhangjiang Information Properties Company Limited ("Zhangjaing") (see note (c) below)	Chinese Mainland	50%	50%	Property development

Notes:

- (a) Geoby is an investment holding company. Its main subsidiary is Goodbaby Child Products Company Limited which is engaged in the production of baby and infant products in Chinese Mainland. In January 2006, the Company disposed its entire interest in Geoby and the gain has been recognised in the consolidated financial statements.
- (b) Goodbaby Bairuikang was established as an equity joint venture in the Chinese Mainland in December 1997 for a term of 50 years.
- (c) Zhangjiang was established as an equity joint venture in the Chinese Mainland in October 2002 for a term of 50 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group's interest in its principal jointly controlled entity is given as follows:

Name	2006				2005			
	Assets HK\$'000	Liabilities HK\$'000	Revenue HK\$'000	Profit HK\$'000	Assets HK\$'000	Liabilities HK\$'000	Revenue HK\$'000	Profit HK\$'000
Zhangjiang	58,963	25,019	34,516	5,056	57,684	6,513	42,565	16,380

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Carrying value at 1st January	63,433	20,811	17,523	32,416
Additions	17,788	7,800	–	–
Disposal	–	–	(24)	–
Transfer from investment in an associated company (Note 21)	–	55,002	–	–
Fair value change transfer from/(to) equity	36,153	(12,380)	45,419	(14,893)
Impairment provision (Note 6)	(2,341)	(7,800)	–	–
Carrying value at 31st December	115,033	63,433	62,918	17,523

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Listed securities				
– Equity securities, Hong Kong	34,327	43,593	62,918	17,499
Unlisted securities				
– Equity securities traded on inactive markets and private issuers	80,706	19,840	–	24
	115,033	63,433	62,918	17,523
Market value of listed securities	34,327	43,593	62,918	17,499

24. LOANS RECEIVABLE

The loans receivable represents loans to third parties of HK\$16,961,000 (2005: HK\$11,154,000) which bears interest at 5% (2005: 5.6%) per annum, and an interest free loan of HK\$11,305,000 (2005: HK\$11,873,000). These loans receivable are not repayable within one year from 31st December 2006. The carrying value of loans receivable approximate to its fair value. The weighted average effective interest rate at 31st December 2006 was 6.3% (2005: 7.1%).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. INVENTORIES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Raw materials	1,747	4,300
Work-in-progress	2,378	3,093
Finished goods	14,767	11,138
	18,892	18,531

At 31st December 2006, the carrying amount of inventories that are carried at net realisable value amounted to HK\$14,767,000 (2005: HK\$11,138,000).

26. LOANS AND ADVANCES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Margin loans (see note (a) below)	183,904	90,581
Provision for doubtful debts	(538)	(622)
	183,366	89,959
Other loans and advances (see note (b) below)	50,841	31,157
Provision for doubtful debts	(27,246)	(23,821)
	23,595	7,336
	206,961	97,295

Notes:

- (a) Margin loans to third parties bear interest at Prime rate plus 1% to 3% per annum in 2006 and 2005, and are repayable on demand. The carrying value of margin loans approximate to their fair value.
- (b) Other loans and advances to third parties include HK\$1,242,000 (2005: HK\$1,150,000) which bears interest at Prime rate plus 1% (2005: Prime rate plus 1%) per annum, HK\$1,856,000 (2005: HK\$3,165,000) which bears interest at 5% (2005: 5%) per annum, and the remaining of HK\$20,497,000 (2005: HK\$3,021,000) which is non-interest bearing. These other loans and advances are repayable within the next twelve months. The carrying value of other loans and advances approximate to their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. TRADE RECEIVABLES

	Group	
	2006	2005
	HK\$'000	HK\$'000
Due from stockbrokers and Hong Kong Securities Clearing Company Limited	34,309	25,486
Trade receivables, net	122,507	291,361
Bills receivable	747	863
	157,563	317,710

All trade receivables are either repayable within one year or on demand. The fair value of the Group's trade receivables are approximately the same as the carrying value.

The ageing analysis of the trade receivables is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 – 30 days	125,300	164,240
31 – 60 days	8,084	105,428
61 – 90 days	6,024	33,929
Over 90 days	18,155	14,113
	157,563	317,710

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

28. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	27,276	39,118	2,318	1,992
Prepayments and deposits	153,518	17,869	649	1,355
	180,794	56,987	2,967	3,347

Other receivables, prepayments and deposits are either repayable within one year or on demand. Accordingly, the fair value of the Group's and the Company's other receivables, prepayments and deposits are approximately the same as the carrying value.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH INCOME STATEMENT

	Group	
	2006	2005
	HK\$'000	HK\$'000
Equity securities		
– Listed, Hong Kong	19,117	18,043
– Listed, Overseas	60,007	33,166
– Unlisted, Hong Kong	49,243	28,853
Derivative financial instruments		
– Equity options	29,537	–
	<hr/>	<hr/>
Market value of financial assets	157,904	80,062
	<hr/>	<hr/>

The carrying amounts of the above financial assets are classified as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Held for trading	79,124	51,209
Designated as fair value through income statement on initial recognition	78,780	28,853
	<hr/>	<hr/>
	157,904	80,062
	<hr/>	<hr/>

Financial assets at fair value through income statement are presented within the section on operating activities as part of changes in working capital in the consolidated cash flow statement (Note 37(a)).

The fair value of all equity securities is based on their current bid prices in an active market.

Equity options are contractual agreements under which the writer grants to the holder the right, but not obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a financial instrument at a predetermined price ("notional amount"). The notional amount of the equity options held by the Group is approximately HK\$33,039,000 (2005: Nil), which indicates the volume of transactions outstanding as at the balance sheet date and does not represent the amounts at risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash at bank and in hand	197,269	107,803	27,434	3,737
Short term bank deposits				
– secured	15,000	15,000	–	–
– unsecured	263,873	27,187	88,824	–
	476,142	149,990	116,258	3,737

Bank balances of HK\$286,486,000 (2005: HK\$82,877,000) are placed with banks in the Chinese Mainland. The remittance of these funds out of the Chinese Mainland is subject to exchange control restrictions imposed by the PRC government.

The effective interest rate on short term deposits ranged from 3.45% to 5.05% (2005: 3.7% to 4.0%) per annum and these deposits have an average maturity of 90 days.

31. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due to stockbrokers and dealers	1,918	–	–	–
Due to stockbroking clients	75,260	53,575	–	–
Trade payables	39,735	198,470	–	–
Total trade payables	116,913	252,045	–	–
Accruals and other payables	107,345	79,122	32,035	14,307
	224,258	331,167	32,035	14,307

The ageing analysis of the trade payables is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 – 30 days	93,087	162,562
31 – 60 days	4,557	64,616
61 – 90 days	2,878	8,482
Over 90 days	16,391	16,385
	116,913	252,045



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. BORROWINGS

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current				
Bank loans, secured	144,449	87,278	—	—
Current				
Short term loans	2,989	19,182	—	—
Bank loans, secured	—	50,060	—	28,000
Bank loans, unsecured	—	9,111	—	—
	2,989	78,353	—	28,000
Liabilities directly associated with non-current assets classified as held for sale and discontinued operations (Note 36)	—	11,989	—	—
Total borrowings	147,438	177,620	—	28,000

The maturity of non-current borrowings is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Between 1 and 2 years	—	27,814
Between 2 and 5 years	52,799	28,773
Over 5 years	91,650	30,691
	144,449	87,278

Certain properties and leasehold land and land use rights of the Group with an aggregate net book value of approximately HK\$76 million (2005: HK\$96 million) as well as fixed deposits of approximately HK\$32 million (2005: HK\$15 million) are pledged as securities against bank loans and general banking facilities amounting to HK\$161 million (2005: HK\$45 million) granted to the Group.

The carrying amount of bank loans approximates its fair value and is denominated in Hong Kong dollar and Renminbi. The effective interest rate at 31st December 2006 ranged from 4.3% to 6.1% (2005: 4.3% to 6.1%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. SHARE CAPITAL

	Ordinary shares of HK\$0.2 each			
	2006		2005	
	Number of shares (thousands)	HK\$'000	Number of shares (thousands)	HK\$'000
Authorised:				
At 1st January and 31st December	2,000,000	400,000	2,000,000	400,000
Issued and fully paid:				
At 1st January	1,182,030	236,406	1,173,692	234,738
Exercise of share options (Note (b))	11,837	2,367	8,338	1,668
At 31st December	1,193,867	238,773	1,182,030	236,406

- (a) On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the 'Scheme') to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the Directors have the discretion to grant to employees and Directors of any member of the Group to subscribe for shares in the Company.

The maximum number of shares subject to the Scheme and any other schemes of the Company (including without limitation to the 1994 Share Option Scheme) does not in aggregate exceed 30 percent of the shares in issue of the Company from time to time. The total number of shares may be issued upon exercise of all options to be granted under the Scheme must not exceed 113,132,370 shares, being 10 percent of shares in issue as at the date of approval of the Scheme by the Shareholders in the Annual General Meeting.

- (b) During the year, 11,836,844 (2005: 8,338,100) new shares of HK\$0.2 each were issued upon exercise of options under the Scheme approved by the shareholders of the Company at exercise price of HK\$0.318 (2005: HK\$0.283 to HK\$0.342) per share. These share rank pari passu with the existing shares of the Company. The related weighted average share price at the time of exercise was HK\$0.710 (2005: HK\$0.586) per share.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. SHARE CAPITAL *(continued)*

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price per share HK\$	Number of Options (thousands)	Average exercise price per share HK\$	Number of Options (thousands)
At 1st January	0.537	101,609	0.467	56,614
Granted	0.680	17,850	0.564	58,272
Exercised	0.318	(11,837)	0.335	(8,338)
Lapsed	0.525	(2,052)	0.453	(4,939)
At 31st December	0.586	105,570	0.537	101,609
Options exercisable at 31st December		88,970		43,337

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Expiry date	Exercise price HK\$	Number of options	
		2006 (thousands)	2005 (thousands)
15th July 2006	0.318	–	11,839
12th November 2007	0.816	16,950	16,950
15th July 2008	0.283	13,748	14,548
11th December 2015	0.564	58,272	58,272
2nd March 2016	0.680	16,600	–
		105,570	101,609

Employee share option benefits charged to the income statement are determined using the Black-Scholes valuation model based with the following assumptions:

	2006	2005
Grant date	3rd March 2006	30th November 2005
Option value	HK\$0.280	HK\$0.250
Share price at date of grant	HK\$0.670	HK\$0.560
Exercise price	HK\$0.680	HK\$0.564
Expected volatility	42.39%	39.46%
Annual risk-free interest rate	4.30%	4.46%
Life of options	8 years	9.5 years
Dividend yield	2.52%	1.79%

The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the past one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. RESERVES

Group	Attributable to shareholders of the Company								Total HK\$'000
	Employee		Capital	Assets	Investment	Exchange			
	share-based		Capital	redemption	revaluation	revaluation	fluctuation	Retained	
	Share	compensation	reserve	reserve	reserve	reserve	reserve	earnings	
	premium	reserve	reserve	reserve	reserve	reserve	reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1st January 2006	596,020	2,508	95,779	14,006	12,262	5,119	17,037	362,036	1,104,767
Issue of new shares	1,386	-	-	-	-	-	-	-	1,386
Employee share option benefits	-	13,990	-	-	-	-	-	-	13,990
Exchange reserve realised upon disposal of a subsidiary	-	-	-	-	-	-	1,022	-	1,022
Capital reserve realised upon disposal of jointly controlled entities	-	-	35,279	-	-	-	(7,699)	(35,308)	(7,728)
Share of post acquisition reserves of an associated company	-	-	28,212	-	-	-	-	-	28,212
Fair value gain of available-for-sale financial assets	-	-	-	-	-	36,153	-	-	36,153
Currency translation differences	-	-	(760)	-	-	-	11,660	-	10,900
Transfer from retained earnings	-	-	5,854	-	-	-	-	(5,854)	-
Profit for the year	-	-	-	-	-	-	-	236,573	236,573
2005 final dividend paid	-	-	-	-	-	-	-	(17,758)	(17,758)
2006 interim dividend paid	-	-	-	-	-	-	-	(23,877)	(23,877)
Balance at 31st December 2006	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	1,383,640
Retained by:									
Company and subsidiaries	597,406	16,498	32,055	14,006	12,262	41,272	16,129	245,327	974,955
Associated companies	-	-	132,144	-	-	-	958	130,246	263,348
Jointly controlled entities	-	-	165	-	-	-	4,933	140,239	145,337
Balance at 31st December 2006	597,406	16,498	164,364	14,006	12,262	41,272	22,020	515,812	1,383,640



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. RESERVES *(continued)*

	Attributable to shareholders of the Company								Total HK\$'000
	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Capital reserve (Note) 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	
Group									
Balance at 1st January 2005	594,896	–	76,094	14,006	12,670	32,392	9,387	334,462	1,073,907
Issue of new shares	1,124	–	–	–	–	–	–	–	1,124
Employee share option benefits	–	2,508	–	–	–	–	–	–	2,508
Capital reserve realised upon disposal of an associated company	–	–	41,011	–	–	–	–	(36,698)	4,313
Share of post acquisition reserves of an associated company	–	–	(21,637)	–	–	–	–	–	(21,637)
Fair value loss upon reclassification	–	–	–	–	(408)	–	–	–	(408)
Fair value loss of available-for-sale financial assets	–	–	–	–	–	(27,273)	–	–	(27,273)
Currency translation differences	–	–	–	–	–	–	7,650	–	7,650
Transfer from retained earnings	–	–	311	–	–	–	–	(311)	–
Profit for the year	–	–	–	–	–	–	–	76,320	76,320
2004 final dividend paid	–	–	–	–	–	–	–	(11,737)	(11,737)
Balance at 31st December 2005	<u>596,020</u>	<u>2,508</u>	<u>95,779</u>	<u>14,006</u>	<u>12,262</u>	<u>5,119</u>	<u>17,037</u>	<u>362,036</u>	<u>1,104,767</u>
Retained by:									
Company and subsidiaries	596,020	2,508	48,339	14,006	12,262	5,119	14,120	58,256	750,630
Associated companies	–	–	47,245	–	–	–	1,463	132,650	181,358
Jointly controlled entities	–	–	195	–	–	–	1,454	171,130	172,779
Balance at 31st December 2005	<u>596,020</u>	<u>2,508</u>	<u>95,779</u>	<u>14,006</u>	<u>12,262</u>	<u>5,119</u>	<u>17,037</u>	<u>362,036</u>	<u>1,104,767</u>

Note:

Capital reserve mainly includes goodwill arising on acquisition of subsidiaries, associated companies and jointly controlled entities by the Company and its subsidiaries and statutory reserve. As stipulated by regulations in Chinese Mainland, the Company's subsidiaries established and operated in Chinese Mainland are required to appropriate a portion of their after-tax (after offsetting prior year losses) to a general reserve fund and an enterprise expansion fund, at rates as determined by their respective Boards of Directors. The general reserve fund can be utilised to offset prior year losses or be utilised for the issuance of bonus shares, whilst the enterprise expansion fund can be utilised for the development of business operations. For the year ended 31st December 2006, a total amount of HK\$5,854,000 (2005: HK\$311,000) was transferred from retained earnings to statutory reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. RESERVES *(continued)*

Company	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2006	596,020	2,508	2,104	14,006	17,499	47,214	679,351
Issue of new shares	1,386	-	-	-	-	-	1,386
Employee share option benefits	-	13,990	-	-	-	-	13,990
Fair value gain of available-for-sale financial assets	-	-	-	-	45,419	-	45,419
Profit for the year	-	-	-	-	-	276,358	276,358
2005 final dividend paid	-	-	-	-	-	(17,758)	(17,758)
2006 interim dividend paid	-	-	-	-	-	(23,877)	(23,877)
At 31st December 2006	597,406	16,498	2,104	14,006	62,918	281,937	974,869

Company	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Capital reserve HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2005	594,896	-	2,104	14,006	32,392	(32,969)	610,429
Issue of new shares	1,124	-	-	-	-	-	1,124
Employee share option benefits	-	2,508	-	-	-	-	2,508
Fair value loss of available-for-sale financial assets	-	-	-	-	(14,893)	-	(14,893)
Profit for the year	-	-	-	-	-	91,920	91,920
2004 final dividend paid	-	-	-	-	-	(11,737)	(11,737)
At 31st December 2005	596,020	2,508	2,104	14,006	17,499	47,214	679,351

35. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Group 2006 HK\$'000	2005 HK\$'000
Deferred tax assets	(1,231)	(603)
Deferred tax liabilities	496	516
	(735)	(87)



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

35. DEFERRED TAXATION *(continued)*

The gross movement on the deferred taxation is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1st January	(87)	659
Recognised in the income statement (<i>Note 9(a)</i>)	(648)	(746)
	<hr/>	<hr/>
At 31st December	(735)	(87)
	<hr/>	<hr/>

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax liabilities represented tax depreciation allowances:

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1st January	516	659
Recognised in the income statement	(20)	(143)
	<hr/>	<hr/>
At 31st December	496	516
	<hr/>	<hr/>

Deferred tax assets represented tax losses recognised:

	Group	
	2006	2005
	HK\$'000	HK\$'000
At 1st January	603	–
Recognised in the income statement	628	603
	<hr/>	<hr/>
At 31st December	1,231	603
	<hr/>	<hr/>

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred tax assets of approximately HK\$54,013,000 (2005: HK\$44,096,000) in respect of tax losses amounting to approximately HK\$308,645,000 (2005: HK\$251,975,000) that can be carried forward indefinitely against future taxable income.

36. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS

In November 2005, the Group's management approved the disposal of assets held by Fu Hai Digital Science & Technology (Shanghai) Company Limited ("Fu Hai"). These assets, included property, plant and equipment and leasehold land and land use rights ("Fu Hai Properties") were presented as non-current assets classified as held for sale as at 31st December 2005. This transaction was completed in December 2006, resulting in a gain of approximately HK\$55,489,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE AND DISCONTINUED OPERATIONS *(continued)*

In December 2005, the Group's management and shareholders approved the disposal of an interest in a jointly controlled entity ("Geoby"). This investment was presented as non-current assets classified as held for sale as at 31st December 2005 and the results of Geoby has been recognised by the Group up to date of disposal. This transaction was completed in January 2006, resulting in a gain of approximately HK\$100,093,000.

The assets and liabilities directly associated with non-current assets classified as held for sale and discontinued operations are summarised as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Non-current assets classified as held for sale and discontinued operations		
Investment in a jointly controlled entity	–	344,010
Property, plant and equipment	–	51,481
Leasehold land and land use rights	–	16,876
	<hr/>	<hr/>
	–	412,367
	<hr/>	<hr/>

	Group	
	2006	2005
	HK\$'000	HK\$'000
Liabilities directly associated with non-current assets classified as held for sale and discontinued operations:		
Short term loans (Note 32)	–	11,989
	<hr/>	<hr/>

An analysis of the result of non-current assets classified as held for sale and discontinued operations is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Profit for the year from non-current assets classified as held for sale and discontinued operations		
Share of Geoby's results		
– profit before taxation	5,032	51,679
– taxation	703	(10,718)
Net gain on disposal of Geoby	100,093	–
Net gain on disposal of Fu Hai Properties	55,489	–
	<hr/>	<hr/>
	161,317	40,961
	<hr/>	<hr/>



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(a) Reconciliation of profit before taxation from continuing operations to net cash (outflow)/inflow from operating activities**

	2006 HK\$'000	2005 HK\$'000
Profit before taxation from continuing operations	85,088	32,826
Share of net loss/(profit) of associated companies	2,404	(36,331)
Share of net profit of jointly controlled entities	(4,418)	(17,527)
Interest income	(15,598)	(3,993)
Dividend income from listed investments	(2,965)	(660)
Finance costs	20,585	8,409
Loss/(gain) on disposal of property, plant and equipment	373	(159)
Net fair value gains on investment properties	(12,239)	(1,261)
Gain on disposal of subsidiaries	(13,897)	(161)
Gain on disposal of partial interest in an associated company	–	(2,966)
Loss on deemed disposal of partial interest in an associated company	3,904	–
Gain on disposal of available-for-sale financial assets	–	(28)
Provision for diminution in value of available-for-sale financial assets	2,341	7,800
Depreciation	36,861	18,128
Amortisation of leasehold land and land use rights	1,275	1,507
Amortisation of trading rights and patent	–	1,096
Impairment losses on trading rights and patent	500	–
Impairment losses on goodwill	–	13,667
Negative goodwill charged to income statement	–	(1,470)
Employees share option benefits	13,990	2,508
Operating profit before working capital changes	118,204	21,385
Increase in inventories	(451)	(12,643)
Decrease/(increase) in trade receivables	160,121	(196,826)
(Increase)/decrease in other receivables, prepayments and deposits	(137,569)	36,302
(Increase)/decrease in loans and advances	(109,666)	15,484
Decrease in other investments	–	2,425
Increase in financial assets at fair value through income statement	(77,842)	(51,433)
(Decrease)/increase in trade and other payables	(119,818)	201,858
Net cash (outflow)/inflow from operating activities	(167,021)	16,552

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**(b) Analysis of changes in financing during the year**

	Share capital including premium		Borrowings	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	832,426	829,634	177,620	86,863
Issue of shares	3,753	2,792	–	–
Repayment of short term loans from third parties	–	–	(31,171)	–
New short term loans from third parties	–	–	–	31,171
Repayment of short term bank loans	–	–	(50,668)	(64,103)
Repayment of short term bank loans directly associated with non-current assets classified as held for sale and discontinued operations	–	–	(11,989)	–
New short term bank loans	–	–	6,475	56,293
Repayment of long term bank loans	–	–	(87,278)	–
New long term bank loans	–	–	144,449	87,278
Bank overdrafts	–	–	–	(19,882)
At 31st December	836,179	832,426	147,438	177,620

(c) Disposal of subsidiaries

	2006	2005
	HK\$'000	HK\$'000
Net assets disposed of:		
Property, plant and equipment	444	53
Inventories	90	–
Trade receivables	26	2
Other receivables, prepayments and deposits	13,762	223
Financial assets at fair value through income statements	–	2,250
Cash and cash equivalents	364	2,313
Trade and other payables	(3,683)	(723)
Minority interests	–	(1,422)
	11,003	2,696
Realisation of exchange reserve	(1,022)	–
Investment in associated companies	–	(1,172)
Gain on disposal of interest in subsidiaries	13,897	161
	23,878	1,685
Satisfied by:		
Cash consideration received	23,878	1,685



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)***(c) Disposal of subsidiaries** *(continued)*

Analysis of the net cash inflow/(outflow) in respect of the disposal of subsidiaries:

	2006 HK\$'000	2005 <i>HK\$'000</i>
Bank balances and cash disposed	(364)	(2,313)
Cash consideration	23,878	1,685
	<hr/>	<hr/>
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	23,514	(628)
	<hr/>	<hr/>

38. CONTINGENT LIABILITIES

	Group		Company	
	2006 HK\$'000	2005 <i>HK\$'000</i>	2006 HK\$'000	2005 <i>HK\$'000</i>
Guarantee for bank overdraft of a subsidiary	—	—	50,000	50,000
	<hr/>	<hr/>	<hr/>	<hr/>

39. COMMITMENTS**(a) Capital commitments for leasehold land and land use rights and property, plant and equipment:**

	Group	
	2006 HK\$'000	2005 <i>HK\$'000</i>
Contracted but not provided for	41,803	11,655
	<hr/>	<hr/>
Authorised but not contracted	320,348	172,638
	<hr/>	<hr/>
The Group's share of capital commitments of a jointly controlled entity and an associated company not included in the above is as follows:		
Contracted but not provided for	5,059	13,163
	<hr/>	<hr/>

The Company did not have any material capital commitments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. COMMITMENTS *(continued)***(b) Commitments under operating leases**

The Group had future aggregate minimum lease receivables under non-cancellable operating leases in respect of leasehold land and land use rights and property, plant and equipment as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Not later than one year	1,735	—
Later than one year but not later than five years	717	—
	2,452	—

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of leasehold land and land use rights and property, plant and equipment as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Not later than one year	7,251	8,746
Later than one year but not later than five years	7,858	9,906
	15,109	18,652

The Company did not have any material commitments under operating leases.

40. RELATED PARTY TRANSACTIONS

During the year, 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) Transactions with associated companies and jointly controlled entities

	Group	
	2006	2005
	HK\$'000	HK\$'000
Purchase of raw materials	9,236	23,970
Purchase of investment properties	12,108	—

(b) Key management compensations

Key management compensations have been disclosed in Note 14.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

41. EVENT AFTER THE BALANCE SHEET DATE

On 5th April 2007, the Company entered into an agreement for the sales of its entire 100% interest in First Shanghai Hotel Group Limited and its 65% interest in subsidiary, Kunshan Traders Park Hotel Company Limited to KHI-11 Ltd., being a third party independent of the Company, at a consideration of approximately RMB201.5 million (equivalent to approximately HK\$204.2 million).

42. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved by the board of Directors on 20th April 2007.