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FIRST SHANGHAI GROUP

FIRST SHANGHAI INVESTMENTS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 227)

ANNOUNCEMENT OF 2004 INTERIM RESULTS

The Board of Directors (the “Board”) of First Shanghai Investments Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries, associated companies and jointly controlled entities (collectively the “Group”) for the six months ended 30th June 2004 together with the comparative figures for the corresponding period last year as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited Six months ended 30th June	
	Note	2004 HK\$'000	2003 HK\$'000
Turnover	2	299,689	123,589
Cost of sales		(190,779)	(89,849)
Gross profit		108,910	33,740
Other revenue		2,071	1,770
Administrative expenses		(78,602)	(38,163)
Other operating expenses		(18,016)	(5,580)
Other operating income		5,085	17,541
Operating profit	2 and 3	19,448	9,308
Finance costs		(3,242)	(144)
Share of profits less losses of			
Associated companies		1,815	23,804
Jointly controlled entities		18,913	20,052
Profit before taxation		36,934	53,020
Taxation	4	(11,674)	(7,658)
Profit after taxation		25,260	45,362
Minority interests		(1,417)	1,112
Profit attributable to shareholders		23,843	46,474
Basic earnings per share	5	2.03 cents	3.96 cents
Fully diluted earnings per share	5	1.99 cents	3.93 cents

Notes:

1. Basis of preparation

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25, “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants. These condensed interim accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. Segment information

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

An analysis of the Group’s turnover and contribution to operating profit for the period by business and geographical segments is as follows:

Primary reporting format — business segments

	Turnover Unaudited		Contribution to operating profit Unaudited	
	Six months ended 30th June		Six months ended 30th June	
	2004 HK\$’000	2003 HK\$’000	2004 HK\$’000	2003 HK\$’000
Securities trading and investment	40,750	71,641	(4,045)	2,787
Corporate finance and stockbroking	55,293	30,999	28,943	14,297
Container transportation and freight forwarding services	22,466	20,593	652	(2,106)
Manufacture of motor vehicles meters and components	171,009	—	6,691	—
Investment holding, property holding and management	10,171	356	(14,864)	(7,440)
	<u>299,689</u>	<u>123,589</u>	<u>17,377</u>	<u>7,538</u>
Other revenue — interest income			<u>2,071</u>	<u>1,770</u>
Operating profit			<u>19,448</u>	<u>9,308</u>

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	—	Investment holding, container transportation and freight forwarding services, manufacture of motor vehicles meters and components

	Turnover Unaudited Six months ended 30th June		Contribution to operating profit Unaudited Six months ended 30th June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	100,804	102,661	26,341	16,346
Chinese Mainland	198,805	20,841	(6,813)	(6,423)
Others	80	87	(2,151)	(2,385)
	<u>299,689</u>	<u>123,589</u>	<u>17,377</u>	<u>7,538</u>
Other revenue — interest income			2,071	1,770
Operating profit			<u>19,448</u>	<u>9,308</u>

3. Operating profit

	Unaudited Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Operating profit is stated after crediting and charging the following:—		
Crediting:		
Recovery of deposit for purchase of an office premise	—	9,000
Gain on disposal of partial interest in an associated company	—	6,002
Gain on disposal of partial interest in subsidiaries	164	—
Amortisation of negative goodwill on acquisition of partial interest in jointly controlled entities	<u>2,799</u>	<u>1,510</u>
Charging:		
Depreciation	7,718	4,203
Loss on disposal of fixed assets	—	25
Amortisation of goodwill on acquisition of partial interest in an associated company and a jointly controlled entity	324	130
Amortisation of goodwill on acquisition of subsidiaries	9,992	4,885
Staff costs	<u>49,600</u>	<u>31,394</u>

4. Taxation

Hong Kong profits tax has been provided for at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

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

	Unaudited	
	Six months ended	
	30th June	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong profits tax		
Current	4,225	1,742
Overprovision in prior years	—	(2)
Overseas taxation — current	2,977	—
Deferred taxation	(172)	138
Share of taxation attributable to:		
Associated companies	389	1,922
Jointly controlled entities	4,255	3,858
	<u>11,674</u>	<u>7,658</u>

5. Earnings per share

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$23,843,000 (2003: HK\$46,474,000). The basic earnings per share is based on the weighted average number of 1,173,691,705 (2003: 1,173,323,705) ordinary shares in issue during the period. The diluted earnings per share is based on 1,196,155,054 (2003: 1,182,087,836) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 22,463,349 (2003: 8,764,131) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

OPERATION REVIEW

For the six months ended 30th June 2004, the Group's turnover grew to HK\$300 million when compared to HK\$124 million for the same period last year. This reflected the consolidation of the results of Zhejiang Shaoxing Betung Instrument Company Limited ("Betung") for reason as stated in the following paragraph. The Group recorded a 2004 interim profit attributable to shareholders of HK\$24 million, representing a 49% decrease from the corresponding period last year. The decrease in profit is mainly caused by the drop of contribution from China Assets (Holdings) Limited ("China Assets", an associated company of the Group) and the absence of special gains recorded in last period. After the divestments of some major projects in last year, China Assets is seeking for new investment opportunities and contribution from China Assets to the Group dropped by approximately HK\$18 million. In the first half of 2003, the Group recorded a gain of HK\$6 million from disposal of certain interest in RBI Holdings Limited ("RBI") and a revenue of HK\$9 million from recovery of a deposit for purchase of an office premise. If the above-mentioned special items were taken out, the 2004 interim results would be better than that of the corresponding period last year.

Following the acquisition of an additional 32% equity interest in Betung in December 2003, Betung has become a subsidiary of the Group and its turnover and profit is consolidated to the Group's financial statements since then. As the result, the Group's turnover, cost of sales, expenses and operating profit increased significantly.

Compared with the same period in 2003, the average daily turnover of The Stock Exchange of Hong Kong Limited increased by 137% to HK\$16 billion. Benefited from the improvement in market sentiment, the business of corporate finance and stockbroking achieved a significant growth in both turnover and operating profit. We were honoured with the “Best Equity House in Hong Kong” by FinanceAsia in 2004.

Goodbaby Child Products Company Limited (“Goodbaby”) continues contributing a reasonable return to the Group. The increase in export sales brought a healthy growth in both turnover and profit attributable to shareholders in the period.

RBI managed to maintain its turnover despite the keen competition in the toy industry during the period under review. However, its profit was down by 33% due to the increase in cost of raw materials and operating costs.

Shanghai Zhong Chuang International Container Storage & Transportation Co. Ltd. (“ZCIC”) has put great efforts to improve its efficiency and reduce the operating cost. It returned to profit in the period under review.

PROSPECTS

Following the rebound in trading volume on the Hong Kong stock market, securities trading appears to have peaked in the first quarter of 2004. Despite Chinese Mainland’s Individual Visit Scheme has boosted some local business sectors such as retail, tourism, food and beverages, the investors are watching the impacts of the macro economic control in Chinese Mainland, high oil prices and the interest rate cycle in the United States. It is likely that the market sentiment as well as our stockbroking business will continue to be affected by these external uncertainties. In respect of corporate finance services, some of our existing clients are ready to list in the second half year and we believe that our Corporate Finance Division can maintain its position in the industry.

It is expected that Chinese Mainland will continue to be one of the fastest growing economies in the world in the coming years. The macro economic control will favor the development of Chinese Mainland’s economy in long run. We believe that our various investments in different business sectors in Chinese Mainland including Betung, Goodbaby and ZCIC can still be benefited from the growth of Chinese Mainland’s economy.

The first phase of the properties development project in Shanghai Zhangjiang High-tech Park is close to completion and the sale activities are planned to commence in the fourth quarter. On the other hand, the development of a four-star hotel in Kunshan Economy & Technology Development District will be completed in mid 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

Profit attributable to shareholders for the six months ended 30th June 2004 was HK\$24 million, a decrease of 49% over the same period in 2003. Basic earnings per share decreased to HK2.03 cents, down 49%.

Turnover of the Group for the period under review increased by 142% to HK\$300 million as compared to HK\$124 million for the same period last year.

Liquidity and financial resources

The Group relied principally on its internal resources to fund its operation and investment activities. Bank loans will be raised in occasion to meet the different demands in our various investment projects. During the period, bank loan of HK\$168 million were borrowed for financing clients' acquisitions of securities and operation of subsidiaries. As at 30th June 2004, the Group is holding approximately HK\$261 million cash reserves and the gearing ratio (total borrowings to shareholders' fund) is at the level of 13%. Investment in marketable securities as at 30th June 2004 amounted to approximately HK\$23 million.

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

Employees

As at 30th June 2004, the Group employed 1,978 (30th June 2003: 472) staff, of which 1,890 are located in Chinese Mainland. Employee remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include medical schemes, defined contribution provident fund schemes and employee shares option scheme. Training courses are provided to staff where necessary. The staff costs for the six months ended 30th June 2004 amounted to approximately HK\$50 million.

Pledge of assets

Certain properties of the Group with an aggregate net book value of approximately HK\$103 million as at 30th June 2004 (31st December 2003: HK\$102 million) as well as fixed deposits of HK\$15 million (31st December 2003: HK\$15 million) were pledged as securities against bank loans and general banking facilities amounting to HK\$129 million (31st December 2003: HK\$129 million) granted to the Group.

Contingent liabilities

As at 30th June 2004, the Group had no material contingent liabilities.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend (2003: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

AUDIT COMMITTEE

The Audit Committee was established on 27th December 1998 and the Company has appointed two independent non-executive Directors, Prof. Woo Chia Wei and Mr. Kwok Lam Kwong Larry, J.P. as members of the Audit Committee of the Company. On 11th March 2004, Mr. Liu Ji was appointed as an independent non-executive Director and a member of the Audit Committee. The Audit Committee has reviewed with the Management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matter, including a review of the unaudited interim accounts for the six months ended 30th June 2004 approved by the Directors.

COMPLIANCE WITH THE CODE OF BEST PRACTICE OF LISTING RULES

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

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

The Company will submit to The Stock Exchange of Hong Kong Limited ("HKSE") on or before 30th September 2004 a compact disc containing all the information required by paragraphs 46(1) to 46(6) (both paragraphs inclusive) of Appendix 16 to the Listing Rules in force prior to 31st March 2004, which remain applicable to results announcements in respect of accounting periods commencing before 1st July 2004 under the transitional arrangements, for uploading onto HKSE's website (<http://www.hkex.com.hk>).

BOARD OF DIRECTORS

As at the date hereof, the Board of Directors of the Company comprises the following Directors:—

Executive Directors:—

Mr. Lao Yuan Yi
(*Chairman and Managing Director*)
Mr. Xin Shulin, Steve
Mr. Yeung Wai Kin
Mr. Hu Yi Ming

Independent Non-Executive Directors:—

Prof. Woo Chia Wei
Mr. Kwok Lam Kwong Larry, J.P.
Mr. Liu Ji

By order of the Board

LAO Yuan Yi

Chairman and Managing Director

Hong Kong, 17th September 2004

Please also refer to the published version of this announcement in the China Daily.