

1. Corporate information

The registered office of Lei Shing Hong Limited is located on 8th Floor, New World Tower I, 18 Queen's Road Central, Hong Kong.

During the year, the Group was involved in the following principal activities:

- trading of motor vehicles and spare parts
- trading of heavy equipment
- property development and investment
- general trading and services
- securities broking and trading
- trading of foreign exchange
- money lending

2. Impact of a revised Statement of Standard Accounting Practice (“SSAP”)

The following revised SSAP and new Interpretation are effective for the first time for the current year's financial statements:

- SSAP 12 (Revised): “Income taxes”
- Interpretation 20: “Income taxes – Recovery of revalued non-depreciable assets”

The SSAP and Interpretation prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting the SSAP and Interpretation which have had a significant effect on the financial statements, are summarised below.

SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or receivable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

2. Impact of a revised Statement of Standard Accounting Practice (“SSAP”) (Continued)

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;
- a deferred tax liability has been recognised on the revaluation of the Group’s land and buildings;
- a deferred tax liability has been recognised relating to the fair value adjustments arising from the acquisition of subsidiaries;
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised; and
- a deferred tax liability has been recognised on the withholding taxes on the unremitted earnings from the Group’s jointly-controlled entity and associates.

Disclosures:

- deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and
- the related disclosures are now more extensive than previously required. These disclosures are presented in notes 9 and 35 to the financial statements and include a reconciliation between the accounting profit and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 35 to the financial statements.

Interpretation 20 requires that a deferred tax asset or liability that arises from the revaluation of certain non-depreciable assets and investment properties is measured based on the tax consequences that would follow from the recovery of the carrying amount of that asset through sale. This policy has been applied by the Group in respect of the revaluation of its investment properties in the deferred tax calculated under SSAP 12.

3. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. Summary of significant accounting policies (Continued)

Joint venture companies (Continued)

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill arising from the acquisition of associates, which was not previously eliminated against consolidated reserves at the time of acquisition, is included as part of the Group's interests in associates.

3. Summary of significant accounting policies (Continued)

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years, except for goodwill arising on acquisitions of subsidiaries whose the principal activity is property development, which is amortised with reference to the sales of the related development properties, as further explained in the accounting policy for "Revenue recognition" below. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was either eliminated against consolidated reserves in the year of acquisition or amortised over a period of 40 years in equal annual instalments commencing from the date of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill to remain eliminated against consolidated reserves; and the Group elected not to retroactively restate the carrying amount of goodwill for any difference between accumulated amortisation in prior years and that calculated under the new accounting policy but to amortise the carrying amount of the goodwill over its remaining useful life. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

3. Summary of significant accounting policies (Continued)

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

3. Summary of significant accounting policies (Continued)**Trading rights**

Trading rights, representing the eligibility right to trade on the Stock Exchange, are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over its estimated useful life of 10 years.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Construction in progress	Nil
Freehold land	Nil
Freehold building	1.6%
Long term leasehold land and buildings	Over the terms of the individual leases or 50 years, whichever is shorter
Medium term leasehold land and buildings	Over the terms of the individual leases
Leasehold improvements	20%
Furniture, fixtures and equipment	20% – 33.3%
Motor vehicles	20%
Vessel	10%

Construction in progress

Construction in progress represents buildings and offices under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the costs of construction and other related expenses incurred during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when it is completed and ready for use.

3. Summary of significant accounting policies (Continued)

Properties under development

Properties under development include the cost of land, construction, financing and other related expenses plus, in the case of pre-sold properties or portions thereof, any attributable profit received on the contracted sales less any provision for foreseeable losses deemed necessary by the directors.

Development properties where construction either has not yet commenced, or has been deferred, are included as land held for development and are stated at cost less any impairment losses.

Properties under development held for sale in respect of which occupancy permits are expected to be granted within one year from the balance sheet date are included as properties held for sale in current assets at the lower of cost and net realisable value. Cost includes all development expenditure, applicable borrowing costs and other direct costs attributable to such properties. Net realisable value is determined by reference to prevailing market prices on an individual property basis.

Properties held for sale

Properties held for sale, including properties under development which have been pre-sold, are stated at the lower of cost and net realisable value. Cost is determined by an apportionment of the total land and buildings costs, including the cost of land, construction, financing and other related expenses, attributable to unsold properties plus, in the case of pre-sold properties or portions thereof, any attributable profit received on the contracted sales less any provision for foreseeable losses deemed necessary by the directors. Net realisable value is determined by reference to prevailing market prices on an individual property held for sale basis.

Profit on sale of properties under development

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the stage of completion of the properties, limited to the extent of non-refundable progress payments received. No profit is recognised until the construction work has progressed to the stage where the eventual completion of the project, and the estimated profit thereon, can be determined with a reasonable degree of certainty.

The profit or loss arising from the outright sale of an interest in an entire development prior to completion is recognised when a binding contract becomes unconditional.

3. Summary of significant accounting policies (Continued)

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties with unexpired lease terms of more than 20 years are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Long term investments

Long term investments comprise non-trading investments in unlisted equity securities intended to be held on a long term basis, club membership debentures and statutory deposits.

Unlisted equity securities are stated at their estimated fair values, on an individual basis. The estimated fair values of unlisted investments are determined by the directors having regard to the most recent reported sales or purchases of the securities. Club membership debentures and statutory deposits are stated at cost less any impairment losses.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the long term investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the long term investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

3. Summary of significant accounting policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of motor vehicles is determined on the unit cost basis. The cost of all other inventories is determined on the weighted average basis. Cost includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Trade receivables

Trade receivables are recognised and carried at the original invoice amount less provisions for doubtful debts. When there is no longer any realistic prospect of recovery, the outstanding amount is written off.

Provision for doubtful loans

Provision is made against loans as and when it is considered necessary by the directors. Loans are stated in the financial statements net of this provision.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised, in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. Summary of significant accounting policies (Continued)

Income tax (Continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of foreign subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of foreign subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of foreign subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows or at an approximation thereto. Frequently recurring cash flows of foreign subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. Summary of significant accounting policies (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Employment Ordinance long service payments

The Group's Hong Kong employees who have completed the required number of years of service to the Group are eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Retirement benefits schemes

The Group operates an occupational retirement scheme registered under the Occupational Retirement Schemes Ordinance (Cap. 426). This scheme has been granted exemption pursuant to Section 5 of the Mandatory Provident Fund Schemes Ordinance. Contributions are made based on a percentage of the employees' basic salaries. When an employee leaves the scheme, unvested benefits will be used to reduce the ongoing employer's contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Employer's contributions based on 5% of the employees' relevant income will be fully vested by the employees upon retirement.

3. Summary of significant accounting policies (Continued)

Employee benefits (Continued)

Retirement benefits schemes (Continued)

Contributions to these schemes are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group and managed by independent professional fund managers.

The employees of the Group's subsidiaries which operate in the Mainland China are required to participate in a central pension scheme operated by the respective local municipal governments. These subsidiaries are required to contribute a specific percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and their cost is not recorded in the profit and loss account or balance sheet. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

3. Summary of significant accounting policies (Continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Provision for product warranties granted by the Group to its customers on certain of its motor vehicles is based on sales volumes and past experience of the level of repairs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in annual general meetings. When these dividends have been declared and approved by the shareholders, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. Summary of significant accounting policies (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, developed properties and listed investments, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods, properties or listed investments sold;
- (b) from the rendering of repair services, based on the stage of completion of the transaction, provided that the costs incurred as well as the estimated costs to completion can be measured reliably. The stage of completion of a transaction associated with the rendering of services is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction;
- (c) from sale of properties, on the percentage of completion basis as explained under “Profit on sale of properties under development”;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective rate of interest applicable;
- (e) currency options premiums, on the transaction date when the relevant currency option contract is entered into;
- (f) dividends, when the shareholders’ right to receive payment is established;
- (g) trading of foreign exchange, on the transaction date when the relevant contract is entered into;
- (h) commission and brokerage income from securities dealing, on a trade date basis;
- (i) from the rendering of insurance brokerage services, when the related insurance premiums become payable;
- (j) consultancy income, when the related consultancy services are rendered; and
- (k) rental income, on a time proportion basis over the lease terms.

4. Turnover, revenue and gains

Turnover represents the net invoiced value of goods sold and repair services rendered; the gross proceeds on the sale of properties; interest income earned from time deposits, term loans, margin loans, equity linked notes and credit linked notes; premiums received from currency options; dividend income from listed investments; foreign exchange trading (losses)/gains; net gains on dealing in listed investments; commission and brokerage income from securities dealing; and insurance income, but excludes intra-group transactions.

The Group's turnover and revenue for the year arose from the following activities:

HK\$'000	2003	2002 (Restated)
Turnover		
Sales of goods	8,717,449	5,686,691
Rendering of repair services	271,317	189,892
Sale of properties	138,679	177,936
Interest income from:		
Time deposits	3,295	3,273
Term loans and margin loans	28,545	23,539
Equity linked notes	1,759	850
Credit linked notes	1,490	–
Premium received from currency options	17,424	7,487
Dividend income from listed investments	2,603	28,830
Foreign exchange trading (losses)/gains, net	(3,703)	41,939
Net gains on dealing in listed investments	8,718	12,068
Commission and brokerage income from securities dealing	3,991	2,238
Insurance income	733	712
	9,192,300	6,175,455
Other revenue and gains		
Consultancy income	–	40,744
Gain on disposal of subsidiaries	13,402	6,243
Gain on disposal of an associate	–	11,261
Gross rental income	16,987	12,117
Other interest income	4,756	11,647
Other income	53,877	14,222
	89,022	96,234

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5. Profit from operating activities

The Group's profit from operating activities is arrived at after charging/(crediting):

HK\$'000	Notes	2003	2002 (Restated)
Cost of inventories sold		8,100,795	5,198,711
Cost of services rendered		167,723	82,087
Depreciation	13	53,914	40,485
Amortisation of goodwill arising from acquisitions of subsidiaries*	16	44,928	47,915
Amortisation of goodwill arising from acquisition of an associate*	19	17,898	15,961
Amortisation of trading rights*	20	300	300
Minimum lease payments under operating leases for land and buildings		18,923	17,959
Provision for doubtful debts		7,117	5,305
Provision for inventories		13,597	669
Auditors' remuneration		2,574	2,371
Staff costs (including directors' remuneration (note 7)):			
Wages and salaries		195,558	181,355
Pension contributions		9,021	7,449
Less: Forfeited contributions		(186)	–
Net pension contributions		8,835	7,449
		204,393	188,804
Foreign exchange losses, net		2,631	27,130
Provision for losses on open foreign exchange positions		21,533	43,332
Provision for long service payments	33	10,177	21,629
Unrealised losses/(gains) on revaluation of short term investments		432	(162)
(Write back of provision)/provision for product warranties	33	(4,929)	29,177
(Write back of provision)/provision for foreseeable loss on properties held for sale		(23,967)	29,436
Dividend income from listed investments		(2,603)	(28,830)
Write back of provision against loans receivable		(30,000)	(10,000)
Rental income, net		(16,540)	(11,629)
Gain on disposal of subsidiaries		(13,402)	(6,243)
Gain on disposal of an associate		–	(11,261)
Gain on disposal of fixed assets, net		(3,755)	(1,711)
Interest income		(39,845)	(39,309)

* The amortisation of goodwill and trading rights for the year is included in "Other operating expenses" on the face of the consolidated profit and loss account.

At the balance sheet date, forfeited contributions amounting to HK\$89,000 (2002: HK\$420) were available to reduce the Group's future pension contributions. The current year's forfeited contributions had arisen in respect of staff who left the occupational retirement scheme during the year.

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6. Finance costs

HK\$'000	Group	
	2003	2002
Interest on borrowings wholly repayable within five years:		
Bank loans	50,541	46,235
Trust receipt loans	35,643	37,677
Bank overdrafts	711	5,879
Total interest	86,895	89,791
Less: Interest capitalised	(8,731)	(6,629)
	78,164	83,162

7. Directors' remuneration

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance, is as follows:

HK\$'000	Group	
	2003	2002
Fees:		
Executive directors	–	–
Independent non-executive directors	180	180
	180	180
Executive directors:		
Salaries, allowances and benefits in kind	9,000	8,360
Pension contributions	675	627
Performance related bonuses	2,150	2,150
	11,825	11,137
	12,005	11,317

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7. Directors' remuneration (Continued)

The number of directors whose remuneration fell within the following bands is as follows:

HK\$	2003 Number of directors	2002 Number of directors
Nil – 1,000,000	3	6
1,000,001 – 1,500,000	1	1
2,000,001 – 2,500,000	1	1
3,500,001 – 4,000,000	2	2

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. Five highest paid employees

The five highest paid employees during the year included two (2002: three) executive directors, further details of whose remuneration are disclosed in note 7. The details of the remuneration of the remaining three (2002: two) non-director, highest paid employees for the year are set out below:

HK\$'000	Group	
	2003	2002
Salaries, allowances and benefits in kind	6,323	3,407
Pension contributions	335	228
Performance related bonuses	1,870	1,289
	8,528	4,924

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

HK\$	2003 Number of employees	2002 Number of employees
1,500,001 – 2,000,000	–	1
2,000,001 – 2,500,000	1	–
2,500,001 – 3,000,000	1	1
3,500,001 – 4,000,000	1	–

9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

HK\$'000	Note	Group	
		2003	2002 (Restated)
Group:			
Current – Hong Kong			
Charge for the year		2,256	429
Over provision in prior years		(99)	(20)
Current – Elsewhere		58,820	95,302
Deferred	35	10,361	(35,486)
		71,338	60,225
Share of tax attributable to a jointly-controlled entity:			
Elsewhere		(1,963)	14,179
Share of tax attributable to associates:			
Elsewhere		6,831	5,438
Total tax charge for the year		76,206	79,842

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9. Tax (Continued)

A reconciliation of the tax expense applicable to profit before tax using the applicable rates (i.e. statutory tax rates) in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the Group's effective tax rates and a reconciliation of the applicable rate to the effective tax rates is as follows:

HK\$'000	Group	
	2003	2002
Profit before tax	338,172	307,102
Tax at Hong Kong statutory tax rate	59,180	49,136
Tax effect arising from higher tax rates of overseas subsidiaries, associates and a jointly- controlled entity, ranged from 7.5% to 33%	17,565	32,926
Tax effect arising from net income that is not taxable in determining taxable profits	(7,116)	(16,781)
Effect on opening deferred tax resulting from increase in Hong Kong profits tax rate	(440)	—
Utilisation of tax losses	(5,558)	(2,484)
Tax losses not recognised	13,287	26,775
Adjustments in respect of current tax of previous periods	(99)	(20)
Reversal of taxable timing difference arising on revaluation of leasehold properties	(437)	—
Reversal of taxable timing difference arising on the unremitted earnings of the Group's certain overseas investments	(176)	(9,710)
Tax charge at the Group's effective rate	76,206	79,842

10. Net profit from ordinary activities attributable to shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company, was HK\$58,904,000 (2002: HK\$335,068,000) (note 38(b)).

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11. Dividend

HK\$'000	Company	
	2003	2002
Proposed final – HK 3 cents (2002: HK 3 cents) per ordinary share	28,535	28,535

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. Earnings per share

The calculations of basic and diluted earnings per share are based on:

HK\$	2003	2002 (Restated)
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	234,412,000	216,397,000

Shares	Number of shares	
	2003	2002
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	951,168,826	951,168,687
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all warrants outstanding during the year	40,225,883	45,268,314
Weighted average number of ordinary shares used in diluted earnings per share calculation	991,394,709	996,437,001

As the subscription prices of the share options outstanding during the years ended 31 December 2003 and 2002 are higher than the respective average market price of the Company's shares during these years, there is no dilution effect on the basic earnings per share.

31 December 2003

13. Fixed assets

Group

HK\$'000	Construction in progress	Land and buildings	Leasehold improve- ments	Furniture, fixtures and equipment	Motor vehicles	Vessel	Total
Cost:							
At 1 January 2003	19,702	691,360	20,490	148,498	80,021	1,850	961,921
Exchange adjustments	(2,154)	(38)	30	(77)	(520)	–	(2,759)
Additions	77,452	25,614	6,846	29,083	46,647	–	185,642
Disposals	(88)	(9,979)	(695)	(12,075)	(26,129)	–	(48,966)
Disposal of subsidiaries	–	–	(159)	(363)	(1,181)	–	(1,703)
At 31 December 2003	94,912	706,957	26,512	165,066	98,838	1,850	1,094,135
Accumulated depreciation:							
At 1 January 2003	–	86,850	10,910	93,859	40,243	1,002	232,864
Exchange adjustments	–	571	(101)	1,470	(32)	–	1,908
Provided during the year	–	17,419	2,312	20,028	13,970	185	53,914
Disposals	–	(77)	(569)	(11,568)	(15,854)	–	(28,068)
Disposal of subsidiaries	–	–	(123)	(267)	(738)	–	(1,128)
At 31 December 2003	–	104,763	12,429	103,522	37,589	1,187	259,490
Net book value:							
At 31 December 2003	94,912	602,194	14,083	61,544	61,249	663	834,645
At 31 December 2002	19,702	604,510	9,580	54,639	39,778	848	729,057

The Group's land and buildings included above are analysed as follows:

HK\$'000	Hong Kong	Elsewhere	Total
Freehold	–	283,875	283,875
Long term leases	8,715	22,073	30,788
Medium term leases	–	281,691	281,691
Short term leases	–	5,840	5,840
Net book value at 31 December 2003	8,715	593,479	602,194

31 December 2003

13. Fixed assets (Continued)

As at 31 December 2003, the Group has not yet obtained the land use right titles of certain of the leasehold land and buildings with a net book value of approximately HK\$10,411,000 (2002: Nil) because the related applications are in the course of processing at the balance sheet date.

At 31 December 2003, certain of the Group's leasehold land and buildings with a net book value of approximately HK\$9,750,000 (2002: HK\$10,754,000) were pledged to secure general banking facilities granted to the Group (note 34).

Company

HK\$'000	Leasehold land and building	Leasehold improve- ments	Furniture, fixtures and equipment	Motor vehicles	Vessel	Total
Cost:						
At 1 January 2003	10,500	139	12	8,795	1,850	21,296
Additions	—	220	—	5,834	—	6,054
Disposals	—	—	—	(6,210)	—	(6,210)
At 31 December 2003	10,500	359	12	8,419	1,850	21,140
Accumulated depreciation:						
At 1 January 2003	1,575	109	12	8,615	1,002	11,313
Provided during the year	210	43	—	951	185	1,389
Disposals	—	—	—	(6,210)	—	(6,210)
At 31 December 2003	1,785	152	12	3,356	1,187	6,492
Net book value:						
At 31 December 2003	8,715	207	—	5,063	663	14,648
At 31 December 2002	8,925	30	—	180	848	9,983

The Company's land and building is situated in Hong Kong and is held under a long term lease.

14. Properties under development

HK\$'000	Group	
	2003	2002
At 1 January	1,251,994	1,708,551
Exchange adjustments	(2,531)	(4,324)
Additions, at cost	86,000	370,163
Disposal of subsidiaries (note 39(c))	(184,891)	(293,479)
Reclassified as "Properties held for sale" within the current assets section in the consolidated balance sheet	(57,868)	(528,917)
At 31 December	1,092,704	1,251,994

Finance costs of HK\$8,731,000 (2002: HK\$6,629,000) were capitalised during the year (note 6).

Details of the properties under development are as follows:

Location	Use	Group interest	Site area	Gross floor area	Stage of completion	Expected completion date
Phases II and III, A3 Residential Area, Wang Jing New City, Chaoyang District, Beijing, PRC	Residential/ Retail	95%	100,000m ²	300,000m ²	Design	Phase II/III 2005/2007
Lots A and B, 1319, Yan An Xi Road, Changning District, Shanghai, PRC	Residential/ Commercial/ Retail	100%*	15,363m ²	74,000m ²	Under construction	2005
Lot No.7, Cheng Du Road, Jing An District, Shanghai, PRC	—	95%	7,358m ²	44,148m ²	Land bank	—

* The Group has a 100% equity interest in the subsidiary which is engaged in the development of this property. A PRC party has provided a portion of the land whilst the Group finances all the development costs. The PRC party is entitled to a share of the gross floor area of 7,200 m² upon completion in accordance with the terms and conditions of the land use agreement with the PRC party.

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15. Investment Properties

HK\$'000	Group		Company	
	2003	2002	2003	2002
At 1 January	71,084	68,885	2,091	2,091
Exchange adjustments	(357)	2,199	–	–
At 31 December	70,727	71,084	2,091	2,091

The Group's and the Company's investment properties are held under medium term leases. Other details are as follows:

Location	Group interest	Gross floor area	Existing use
Unit 703A-B, 7th Floor, Citic Building, Jin Sha Road East, Long Hu District, Shantou, Guangdong, PRC	100%	432.7m ²	Offices
Rooms 1201-06 on 12th Floor and whole of 24th Floor and car parking spaces nos. 36, 37, 38, 39, 40 and 41 in Basement 2, Guangzhou International Trading Centre, No.1, Lin He Road West, Tianhe District, Guangzhou, Guangdong, PRC	100%	2,956.2m ²	Offices
16th Floor and car parking spaces nos. 51 & 52 on 2nd Tower Basement, Shartex Plaza, No. 88, ZunYi Nan Road, Changning District, Shanghai, PRC	100%	954.0m ²	Offices

At 31 December 2003, the investment properties were revalued on an open market, existing use basis by Chung, Chan & Associates, an independent professionally qualified valuer, at values which were not significantly different from their carrying amounts. The investment properties are leased to third parties under operating leases, further details of which are included in note 42 to the financial statements.

16. Goodwill

The amounts of the goodwill capitalised as assets in the consolidated balance sheet, arising from the acquisitions of subsidiaries, are as follows:

Group

HK\$'000

Cost:

At 1 January 2003

As previously reported 711,492

Prior year adjustment: SSAP 12 – restatement of deferred tax 188,260

As restated and at 31 December 2003 899,752

Accumulated amortisation:

At 1 January 2003

As previously reported 127,804

Prior year adjustment: SSAP 12 – restatement of deferred tax 13,003

As restated 140,807

Provided during the year 44,928

At 31 December 2003 185,735

Net book value:

At 31 December 2003 714,017

At 31 December 2002 758,945

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively; and for goodwill which was previously capitalised to be amortised over its remaining useful life.

As at 31 December 2003, the amounts of goodwill and negative goodwill remaining in consolidated reserves, arising from the acquisitions of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK\$3,082,000 (2002: HK\$3,082,000) and HK\$12,011,000 (2002: HK\$12,743,000), respectively. The amount of goodwill is stated at cost.

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17. Interests in subsidiaries

HK\$'000	Company	
	2003	2002
Unlisted shares, at cost	3,366,673	3,366,673
Due from subsidiaries	2,535,871	2,204,208
Due to subsidiaries	(1,301,941)	(468,265)
	4,600,603	5,102,616
Less: Provisions for impairment	(519,100)	(519,100)
	4,081,503	4,583,516

Details of the principal subsidiaries are set out in note 45 to the financial statements.

18. Interest in a jointly-controlled entity

HK\$'000	Group	
	2003	2002 (Restated)
Share of net assets	225,313	229,399

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operation	Percentage of equity attributable to the Group		Principal activity
			2003	2002	
DaimlerChrysler Taiwan Limited	Corporate	Taiwan	34.7	34.7	Trading of motor vehicles

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19. Interests in associates

HK\$'000	Group	
	2003	2002 (Restated)
Share of net assets other than goodwill	1,326,948	1,316,991
Unamortised goodwill:		
At 1 January		
As previously reported	173,420	156,869
Prior year adjustment: SSAP 12 – restatement of deferred tax	92,065	124,576
As restated	265,485	281,445
Provided during the year	(17,898)	(15,961)
At 31 December	247,587	265,484
Due from associates	2,554	193
Due to associates	(43,457)	(32,078)
	1,533,632	1,550,590

Details of the principal associates are set out in note 46 to the financial statements.

19. Interests in associates (Continued)

The following is a condensed summary of certain financial information for the two years ended 31 December 2003, in respect of the major associate group, Capital Motors Inc. and its subsidiaries:

HK\$'000	2003	2002 (Restated)
RESULTS		
Turnover	1,835,871	3,429,712
Net profit attributable to shareholders	46,430	152,787
The Group's share of profit before tax for the year	25,781	63,352
ASSETS AND LIABILITIES		
Fixed assets	3,745,402	3,783,016
Other long term assets	176,445	1,248,092
Current assets	387,913	438,358
Current liabilities	(554,219)	(1,504,203)
Non-current liabilities	(269,928)	(455,531)
Minority interests	–	(63,788)
Net assets	3,485,613	3,445,944
Share of net assets attributable to the Group	1,216,479	1,202,634

The associates did not have any contingent liabilities at the balance sheet date (2002: Nil).

31 December 2003

20. Intangible asset

Group

HK\$'000

Trading rights

Cost:

At 1 January 2003 and 31 December 2003	3,000
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Accumulated amortisation:

At 1 January 2003	750
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Provided during the year	300
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At 31 December 2003	1,050
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Net book value:

At 31 December 2003	1,950
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At 31 December 2002	2,250
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21. Long term investments

HK\$'000	Group		Company	
	2003	2002	2003	2002
Overseas unlisted equity investments, at fair value	1,875	1,883	–	–
Investments in PRC companies, at fair value	57,337	48,224	–	–
Credit linked notes, at fair value	77,980	–	–	–
Transferable club membership debentures, at cost	5,040	4,782	1,820	1,820
Statutory deposits, at cost	209	209	–	–
	142,441	55,098	1,820	1,820

22. Long term receivable

The long term receivable represents the proceeds from the disposal of a subsidiary, in the form of cash or residential and rental floor space, which are receivable in 2006.

23. Short term investments

HK\$'000	Group	
	2003	2002
Listed equity investments, at market value:		
Hong Kong	47,689	36,840
Overseas	35,344	375,904
	83,033	412,744

24. Inventories

HK\$'000	Group	
	2003	2002
Motor vehicles and spare parts	1,216,086	1,111,045
Machinery and spare parts	390,292	134,825
	1,606,378	1,245,870

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$60,582,000 (2002: Nil) as at the balance sheet date.

25. Properties held for sale

HK\$'000	Group	
	2003	2002
Properties held for sale, at cost	288,879	360,605
Less: Provision for foreseeable loss	(5,469)	(29,436)
	283,410	331,169

26. Trade receivables

The Group has granted credit to substantially all its debtors ranging from 30-60 days. Due to certain trade patterns, a minority of debtors have been given a credit period of 90-150 days. The Group seeks to maintain strict control over its outstanding receivables and has credit control to minimise credit risk. Overdue balances are reviewed regularly by senior management.

The aged analysis of trade receivables as at the balance sheet date, based on the payment due date and net of provisions, is as follows:

HK\$'000	Group	
	2003	2002
Current	554,609	516,414
0 – 3 months	121,370	95,561
4 – 6 months	23,172	5,157
7 – 12 months	29,036	–
Over 1 year	11,282	2,617
	739,469	619,749

27. Loans receivable

Subsequent to the balance sheet date, loans receivable of HK\$603,245,000 together with the interest accrued thereon were repaid.

28. Other receivables

HK\$'000	Group		Company	
	2003	2002	2003	2002
Prepayments and deposits	123,482	85,312	515	191
Other debtors	142,334	118,760	385	1,197
	265,816	204,072	900	1,388

29. Cash and cash equivalents and pledged time deposits

HK\$'000	Group		Company	
	2003	2002	2003	2002
Cash and bank balances	463,255	341,494	6,465	30,280
Time deposits	1,338,094	874,783	429,880	61,550
	1,801,349	1,216,277	436,345	91,830
Less:				
Pledged time deposits for short term bank loans (note 34)	(864,887)	(728,077)	–	–
Pledged deposits from property purchasers	(1,716)	–	–	–
	(866,603)	(728,077)	–	–
Cash and cash equivalents	934,746	488,200	436,345	91,830

30. Trade and bill payables

The aged analysis of trade and bill payables as at the balance sheet date, based on the payment due date, is as follows:

HK\$'000	Group	
	2003	2002
Current	1,509,718	844,891
0 – 3 months	363,480	3,351
4 – 6 months	8	9,113
	1,873,206	857,355

31. Other payables and accruals

HK\$'000	Group		Company	
	2003	2002	2003	2002
Accruals	195,045	264,106	2,464	4,001
Deposits received	130,983	123,949	26	26
Other payables	56,332	20,831	–	–
	382,360	408,886	2,490	4,027

32. Interest-bearing bank borrowings and other non interest-bearing borrowing

HK\$'000	Note	Group		Company	
		2003	2002	2003	2002
Bank overdrafts – unsecured	34	–	40,728	–	–
Current portion of bank loans	34	1,176,054	1,099,940	159,173	105,865
Trust receipt loans	34	1,210,016	1,101,249	–	–
Other loan – unsecured	34	4,647	79,508	4,647	79,508
		2,390,717	2,321,425	163,820	185,373

33. Provisions

Group

HK\$'000	Product warranties	Long service payments	Total
At 1 January 2003	43,555	4,827	48,382
Provided/(written back) during the year	(4,929)	10,177	5,248
Amounts utilised during the year	(6,223)	(1,166)	(7,389)
Deposits with an insurance company	–	(3,194)	(3,194)
At 31 December 2003	32,403	10,644	43,047

The Group provides warranties to its customers on certain of its motor vehicles within the free warranty period. The amount of the provision for the warranties is estimated based on sales volumes and past experience of the level of repairs. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading “Employee benefits” in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date, less any amount that would be expected to be met by the Group’s retirement benefit schemes.

34. Interest-bearing bank borrowings and other non interest-bearing borrowing

HK\$'000	Group		Company	
	2003	2002	2003	2002
Bank overdrafts – unsecured	–	40,728	–	–
Bank loans:				
Secured	749,630	673,259	–	–
Unsecured	947,306	1,110,401	376,579	484,117
	1,696,936	1,783,660	376,579	484,117
Other loan – unsecured	4,647	79,508	4,647	79,508
Trust receipt loans	1,210,016	1,101,249	–	–
	2,911,599	3,005,145	381,226	563,625
Bank overdrafts repayable within one year or on demand	–	40,728	–	–
Bank loans repayable:				
Within one year or on demand	1,176,054	1,099,940	159,173	105,865
In the second year	289,904	253,467	190,230	159,880
In the third to fifth years, inclusive	230,978	430,253	27,176	218,372
	1,696,936	1,783,660	376,579	484,117
Other loan repayable on demand	4,647	79,508	4,647	79,508
Trust receipt loans repayable within one year	1,210,016	1,101,249	–	–
	2,911,599	3,005,145	381,226	563,625
Portion classified as current liabilities – note 32	(2,390,717)	(2,321,425)	(163,820)	(185,373)
Long term portion – unsecured	520,882	683,720	217,406	378,252

34. Interest-bearing bank borrowings and other non interest-bearing borrowing (Continued)

- (a) At 31 December 2003, the Group's short term bank loans amounting to HK\$743,130,000 (2002: HK\$666,759,000) were secured by fixed charges on foreign currency bank deposits of HK\$864,887,000 (2002: HK\$728,077,000).
- (b) At 31 December 2003, a bank loan of the Group amounting to HK\$6,500,000 was secured by the Group's leasehold land and buildings, which had an aggregate net book value at the balance sheet date of approximately HK\$9,750,000 (2002: HK\$10,754,000).
- (c) At 31 December 2003, the Group and the Company's other loan had been advanced by a major shareholder. This loan is unsecured, interest-free and repayable on demand.

35. Deferred tax

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group

HK\$'000	Fair value adjustments arising from acquisitions of subsidiaries		Unremitted earnings		Revaluation of properties		Others		Total	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	At 1 January									
As previously reported	–	–	–	–	–	–	–	–	–	–
Prior year adjustment:										
SSAP 12 – restatement of deferred tax	158,589	160,293	41,313	51,023	834	834	(8,988)	–	191,748	212,150
As restated	158,589	160,293	41,313	51,023	834	834	(8,988)	–	191,748	212,150
Deferred tax charged/(credited) to the profit and loss account during the year (note 9)	(4,650)	(5,379)	(176)	(9,710)	–	–	8,723	(8,988)	3,897	(24,077)
Deferred tax debited to the equity during the year	–	3,675	–	–	–	–	–	–	–	3,675
	(4,650)	(1,704)	(176)	(9,710)	–	–	8,723	(8,988)	3,897	(20,402)
Gross deferred tax liabilities at 31 December	153,939	158,589	41,137	41,313	834	834	(265)	(8,988)	195,645	191,748

31 December 2003

35. Deferred tax (Continued)

Deferred tax assets

Group

HK\$'000	Losses available for offset against				Gain on valuation of forward				Total	
	future taxable profits		Provision		exchange contracts		Others			
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
At 1 January										
As previously reported	-	-	-	-	-	-	-	-	-	-
Prior year adjustment:										
SSAP 12 – restatement of deferred tax	13,922	10,618	17,149	10,634	-	(958)	2,484	1,862	33,555	22,156
As restated	13,922	10,618	17,149	10,634	-	(958)	2,484	1,862	33,555	22,156
Deferred tax credited/(charged) to the profit and loss account during the year, including a credit of HK\$440,000 (2002: Nil) due to the effect of a change in Hong Kong profits tax rates (note 9)	(6,924)	3,314	(773)	6,515	-	958	1,233	622	(6,464)	11,409
Exchange differences	-	(10)	-	-	-	-	-	-	-	(10)
	(6,924)	3,304	(773)	6,515	-	958	1,233	622	(6,464)	11,399
Gross deferred tax assets at 31 December	6,998	13,922	16,376	17,149	-	-	3,717	2,484	27,091	33,555
Net deferred tax liabilities at 31 December									168,554	158,193

The Group has tax losses arising in Hong Kong of HK\$14,826,000 (2002: HK\$22,089,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

35. Deferred tax (Continued)

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in an increase in the Group's net deferred tax liabilities as at 31 December 2003 and 2002 by HK\$168,554,000 and HK\$158,193,000, respectively. As a consequence, the consolidated net profits attributable to shareholders for the years ended 31 December 2003 and 2002 have been reduced by HK\$9,873,000 and increased by HK\$35,900,000, respectively, and the consolidated retained profits at 1 January 2003 and 2002 have been increased by HK\$19,062,000 and reduced by HK\$16,838,000, respectively, as detailed in the consolidated statement of changes in equity.

36. Share capital

Shares

HK\$'000	2003	2002
Authorised:		
2,000,000,000 ordinary shares of HK\$1 each	2,000,000	2,000,000
Issued and fully paid:		
951,168,826 ordinary shares of HK\$1 each	951,169	951,169

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

Warrants

A rights issue of warrants at an initial subscription price of HK\$0.5 per warrant was made in the proportion of one warrant for every five shares held by members on the register of members on 28 May 2001, resulting in 190,233,000 warrants being issued. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$1 at an initial exercise price of HK\$3 per share, payable in cash and subject to adjustment, at any time from 19 June 2001 to 19 June 2006.

There were no warrants exercised during the year. At the balance sheet date, the Company had 190,229,174 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 190,229,174 additional ordinary shares of HK\$1 each.

37. Share option scheme

The Company operates a share option scheme (the “Scheme”) for the purpose of providing incentives and rewards to eligible participants. Eligible participants of the Scheme include employees and directors (excluding non-executive directors) of the Company and any of its subsidiaries. The Scheme became effective on 25 June 1997 and expired on 24 June 2002. All share options granted prior to the expiration of the Scheme remain in full force and effect.

The maximum number of shares in respect of which options may be granted under the Scheme was not permitted to exceed 5% of the issued share capital of the Company from time to time. The maximum number of shares issuable under share options to each eligible participant in the Scheme was not permitted to exceed 25% of the maximum aggregate number of shares in respect of the options granted under the Scheme.

The offer of a grant of share options was able to be accepted from the date of the offer upon payment of HK\$1, being nominal consideration for the grant of an option. The granted share options may be exercised at any time during the period of eight years from the second anniversary of the date on which the share option is deemed to be granted and accepted by the holders in accordance with the provisions of the Scheme.

The exercise price of the share options is the higher of 80% of the average of the closing prices on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option and the nominal value of the shares.

Share options do not confer rights on the holders to receive dividends or to vote at shareholders’ meetings.

37. Share option scheme (Continued)

The following share options were outstanding under the Scheme during the year:

Name or category of participant	Number of share options			Date of grant of share options	Exercisable period of share options	Exercise price of share options HK\$	Price of the Company's shares at grant date of options HK\$
	At 1 January 2003	Lapsed during the year	At 31 December 2003				
Directors							
GAN Khian Seng	500,000	–	500,000	2-8-1997	1-9-1999 to 31-8-2007	5.89	7.75
	200,000	–	200,000	24-1-1998	31-1-2000 to 30-1-2008	6.00	7.45
YONG Foo San, JP	500,000	–	500,000	2-8-1997	21-8-1999 to 20-8-2007	5.89	7.75
	200,000	–	200,000	24-1-1998	27-1-2000 to 26-1-2008	6.00	7.45
HARMS Volker Josef Ekehard	500,000	–	500,000	2-8-1997	2-8-1999 to 1-8-2007	5.89	7.75
	200,000	–	200,000	24-1-1998	24-1-2000 to 23-1-2008	6.00	7.45
LIM Mooi Ying, Marianne	500,000	–	500,000	2-8-1997	2-8-1999 to 1-8-2007	5.89	7.75
	200,000	–	200,000	24-1-1998	27-1-2000 to 26-1-2008	6.00	7.45
	2,800,000	–	2,800,000				
Other employees in aggregate							
	3,675,000	(500,000)	3,175,000	2-8-1997	(Note)	5.89	7.75
	2,456,000	(250,000)	2,206,000	24-1-1998	(Note)	6.00	7.45
	6,131,000	(750,000)	5,381,000				
	8,931,000	(750,000)	8,181,000				

Note: The granted share options may be exercised at any time during the period of eight years from the second anniversary of the date on which the share option is deemed to be granted and accepted by the holders in accordance with the provisions of the Scheme.

At the balance sheet date, the Company had 8,181,000 share options outstanding under the Scheme, which represented approximately 0.86% of the Company's shares in issue as at that date. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 8,181,000 additional ordinary shares of the Company and an additional share capital of HK\$8,181,000 and share premium of HK\$40,335,750 before the related share issue expenses.

38. Reserves**(a) Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 34 to 35 of the financial statements.

Pursuant to the respective laws and regulations for Sino-foreign joint venture enterprises and Korea and Taiwan incorporated companies, a portion of the profits of subsidiaries, associates and a jointly-controlled entity of the Group in the PRC, Korea and Taiwan has been transferred to reserve funds.

Certain amounts of goodwill and negative goodwill arising on the acquisitions of subsidiaries in prior years remain eliminated against consolidated retained profits and credited to the capital reserve, as explained in note 16 to the financial statements.

(b) Company

HK\$'000	Note	Share premium account	Warrant subscription reserve	Retained profits	Total
At 1 January 2002		2,459,512	91,648	285,572	2,836,732
Exercise of warrants		9	(2)	–	7
Net profit for the year		–	–	335,068	335,068
Proposed 2002 final dividend	11	–	–	(28,535)	(28,535)
At 31 December 2002 and 1 January 2003		2,459,521	91,646	592,105	3,143,272
Net profit for the year		–	–	58,904	58,904
Proposed 2003 final dividend	11	–	–	(28,535)	(28,535)
At 31 December 2003		2,459,521	91,646	622,474	3,173,641

39. Notes to the consolidated cash flow statement

(a) Major non-cash transaction

During the year, part of the consideration for the disposal of subsidiaries amounting to HK\$ 380,000,000 was satisfied in the form of loans receivable and long term receivable from the purchasers.

(b) Restricted cash and cash equivalent balances

Certain of the Group's time deposits and bank balance are pledged to a bank to secure bank loans granted to the Group, as further explained in notes 32 and 34 to the financial statements.

(c) Disposal of subsidiaries

HK\$'000	2003	2002
Net assets disposed of:		
Fixed assets (note 13)	575	—
Properties under development (note 14)	184,891	293,479
Short term investments	336,523	127,724
Trade receivables, prepayments and deposits	—	9
Cash and bank balances	—	10,331
Trade payables, accruals and deposits received	(3,848)	(10,331)
	518,141	421,212
Incidental costs on disposal	1,655	11,990
Gain on disposal of subsidiaries	13,402	6,243
Goodwill previously eliminated against consolidated reserves released	—	7,342
Exchange reserve released	(1,267)	(2,827)
	531,931	443,960
Satisfied by:		
Cash received	151,931	318,960
Loans receivable	320,000	125,000
Long term receivable	60,000	—
	531,931	443,960

39. Notes to the consolidated cash flow statement (Continued)

(c) Disposal of subsidiaries (Continued)

The analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries was as follows:

HK\$'000	2003	2002
Cash received	151,931	318,960
Cash and bank balances disposed of	–	(10,331)
Incidental costs paid for disposal	(1,655)	(8,680)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	150,276	299,949

The results of subsidiaries disposed of during the year and in the prior year had no significant impact on the Group's consolidated turnover or profit after tax.

(d) Purchase of additional interests in subsidiaries in the prior year

HK\$'000	2002
Purchase of additional interests in subsidiaries, previously accounted for as minority interests	46,485
Goodwill on acquisition	8,318
	<u>54,803</u>
Satisfied by:	
Cash paid	32,376
Cash payable	6,236
Settlement of amounts due from the minority shareholders	16,191
	<u>54,803</u>

The analysis of the net outflow of cash and cash equivalents in respect of the purchase of additional interests in subsidiaries during the year ended 31 December 2002 was as follows:

HK\$'000	2002
Outflow of cash and cash equivalents in respect of the purchase of additional interests in subsidiaries	32,376

39. Notes to the consolidated cash flow statement (Continued)

(e) Disposal of an associate in the prior year

HK\$'000	2002
<hr/>	
Share of net assets value disposed of	16,260
Exchange reserve released	179
Goodwill previously eliminated against consolidated reserves released	1,300
Gain on disposal of an associate	11,261
	<hr/>
	29,000
	<hr/>
Satisfied by:	
Cash received	29,000
	<hr/>

The analysis of the net inflow of cash and cash equivalents in respect of the disposal of an associate during the year ended 31 December 2002 was as follows:

HK\$'000	2002
<hr/>	
Inflow of cash and cash equivalents in respect of the disposal of an associate	29,000
	<hr/>

40. Contingent liabilities

At the balance sheet date, the Group had contingent liabilities in respect of bills discounted with recourse and bank guarantees, amounting to HK\$689,823,000 (2002: HK\$241,541,000) and HK\$25,292,000 (2002: HK\$8,805,000), respectively.

At the balance sheet date, the Company had contingent liabilities relating to guarantees given to banks to secure general banking facilities granted to subsidiaries and an associate amounting to HK\$4,348,585,000 (2002: HK\$3,457,796,000).

41. Pledge of assets

Details of the Group's bank borrowings secured by assets of the Group are included in note 34 to the financial statements.

42. Operating lease arrangements

(a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At 31 December 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

HK\$'000	Group	
	2003	2002
Within one year	14,295	13,837
In the second to fifth years, inclusive	11,740	32,827
Beyond five years	11,482	22,928
	37,517	69,592

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

HK\$'000	Group	
	2003	2002
Within one year	24,530	16,802
In the second to fifth years, inclusive	47,386	11,569
Beyond five years	70,069	14,112
	141,985	42,483

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43. Commitments

In addition to the operating lease commitments detailed in note 42(b) above, the Group had the following commitments at the balance sheet date:

(a) Capital commitments

HK\$'000	Group	
	2003	2002
Contracted, but not provided for:		
Properties under development	416,260	461,463
Construction in progress	54,373	1,030
Capital contributions payable to subsidiaries	–	31,820
	470,633	494,313
Authorised, but not contracted for:		
Construction in progress	26,369	77,797
Total capital commitments	497,002	572,110

(b) Financial derivatives

HK\$'000	Group	
	2003	2002
Foreign exchange forward contracts	832,763	36,745
Currency options written	–	77,990
	832,763	114,735

The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date. They do not represent amounts at risk.

44. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the Trading of motor vehicles and spare parts segment engages in the distribution of Mercedes-Benz passenger cars and the related after-sales services in the Northern and Eastern regions of the PRC and Korea;
- (b) the Trading of heavy equipment segment handles the distribution of Caterpillar heavy equipment in the Eastern region of the PRC;
- (c) the Property development and investment segment engages in property development and real estate management of the Group's property portfolio in the PRC;
- (d) the General trading and services segment engages in the trading of timbers, manufactured wood products, ceramic tiles, fertilisers and watch components;
- (e) the Securities broking and trading segment engages in the provision of securities broking services and the trading in listed equity investments in Hong Kong and overseas;
- (f) the Trading of foreign exchange segment engages in foreign exchange investments;
- (g) the Money lending segment engages in the provision of loan finance; and
- (h) the Others segment comprises the Group's other businesses, together with corporate income and expense items.

The Money lending segment, which was previously reported as part of the Others segment, has been identified as a reportable segment for the current year. The 2002 comparative amounts have been restated accordingly.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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44. Segment information (Continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

HK\$'000	Trading of motor vehicles and spare parts		Trading of heavy equipment		Property development and investment		General trading and services	
	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002
Segment revenue:								
Sales to external customers	5,723,351	3,543,817	2,090,221	1,314,707	138,679	177,936	1,175,194	1,018,060
Intersegment sales	–	–	–	–	–	–	3,199,818	2,564,219
Intersegment revenue	–	–	–	–	989	690	23,062	34,655
Other revenue	71,674	72,767	586	681	8,068	846	3,418	3,665
Total	5,795,025	3,616,584	2,090,807	1,315,388	147,736	179,472	4,401,492	3,620,599
Segment results	200,699	144,023	91,176	66,550	766	(74,203)	57,281	59,579
Finance costs								
Share of profits and losses of:								
A jointly-controlled entity	759	49,981	–	–	–	–	–	–
Associates	18,656	57,011	–	–	–	–	407	975
Profit before tax								
Tax								
Profit before minority interests								
Minority interests								
Net profit from ordinary activities attributable to shareholders								
Segment assets	3,596,763	3,313,252	696,907	286,450	1,648,288	1,814,972	997,245	1,003,217
Interest in a jointly-controlled entity	225,313	229,399	–	–	–	–	–	–
Interests in associates	1,541,687	1,560,760	–	–	–	–	(20,236)	(20,174)
Unallocated assets								
Total assets								
Segment liabilities	1,656,307	1,542,427	474,612	204,368	88,539	185,277	776,514	159,772
Unallocated liabilities								
Total liabilities								
Other segment information:								
Depreciation	41,095	29,850	7,782	6,481	2,968	2,904	14	–
Amortisation	58,616	58,497	–	–	4,210	5,379	–	–
Other non-cash expenses (write back), net	16,290	52,880	9,795	–	(23,831)	29,436	228	–
Capital expenditure	166,665	109,776	10,683	8,127	1,638	1,921	–	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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Securities broking and trading		Trading of foreign exchange		Money lending		Others		Eliminations		Consolidated	
2003	2002	2003	2002	2003	2002 (Restated)	2003	2002 (Restated)	2003	2002	2003	2002 (Restated)
18,862	44,091	15,899	51,758	27,812	21,286	2,282	3,800	-	-	9,192,300	6,175,455
-	-	-	-	-	-	-	-	(3,199,818)	(2,564,219)	-	-
-	-	-	-	-	-	35,421	29,341	(59,472)	(64,686)	-	-
5,276	6,605	-	-	-	-	-	11,670	-	-	89,022	96,234
24,138	50,696	15,899	51,758	27,812	21,286	37,703	44,811	(3,259,290)	(2,628,905)	9,281,322	6,271,689
2,600	33,881	(12,223)	13,330	40,630	12,683	38,988	40,654	(23,244)	(15,978)	396,673	280,519
										(78,164)	(83,162)
-	-	-	-	-	-	-	-	-	-	759	49,981
-	-	-	-	-	-	(159)	1,778	-	-	18,904	59,764
										338,172	307,102
										(76,206)	(79,842)
										261,966	227,260
										(27,554)	(10,863)
										234,412	216,397
232,968	457,053	864,887	728,077	727,206	375,999	471,153	119,696	(801,076)	(821,702)	8,434,341	7,277,014
-	-	-	-	-	-	-	-	-	-	225,313	229,399
-	-	-	-	-	-	12,181	10,004	-	-	1,533,632	1,550,590
										27,091	33,555
										10,220,377	9,090,558
60,554	24,844	743,130	666,759	25,330	3,334	17,833	16,303	(801,076)	(821,702)	3,041,743	1,981,382
										2,391,121	2,582,449
										5,432,864	4,563,831
98	81	-	-	-	-	1,957	1,169	-	-	53,914	40,485
300	300	-	-	-	-	-	-	-	-	63,126	64,176
845	-	21,533	43,332	(30,000)	(10,000)	(900)	4,907	-	-	(6,040)	120,555
82	130	-	-	-	-	6,574	739	-	-	185,642	120,693

44. Segment information (Continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

HK\$'000	People's Republic of China				Other Asian Countries		Eliminations		Consolidated	
	Hong Kong		Mainland China		2003	2002	2003	2002	2003	2002
	2003	2002	2003	2002						
Segment revenue:										
Sales to external customers	918,453	944,145	5,904,144	3,464,259	2,369,703	1,767,051	–	–	9,192,300	6,175,455
Other segment information:										
Segment assets	3,741,885	2,272,110	3,373,924	3,521,904	2,119,608	2,304,702	(801,076)	(821,702)	8,434,341	7,277,014
Capital expenditure	7,674	13,233	128,167	51,909	49,801	55,551	–	–	185,642	120,693

45. Subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				2003	2002	
Lei Shing Hong Automobile Limited #	Corporate	Hong Kong	HK\$2,200,000,000	100	100	Investment holding
Eastern Star Automobile Limited	Corporate	Hong Kong	HK\$10,000	100	100	Trading of motor vehicles
Shanghai Eastern Star Automobile Trading Company Limited	WFOE [†]	PRC	US\$4,460,000	100	100	Trading of motor vehicles
Shanghai Star Automobile Service Company Limited	Sino-foreign co-operative enterprise	PRC	US\$1,800,000	100	100	Motor vehicle repairs and maintenance

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2003

45. Subsidiaries (Continued)

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				2003	2002	
Xiamen Airport Star Automobile Repair Centre Limited *	Sino-foreign co-operative enterprise	PRC	RMB12,500,000	60	60	Motor vehicle repairs and maintenance
Pasture Developments Limited	Corporate	British Virgin Islands @	US\$100	100	100	Investment holding
Glory Sheen Investment Limited	Corporate	Hong Kong	HK\$10,000	100	100	Investment holding
Big Dragon Limited	Corporate	British Virgin Islands @	HK\$10,000	100	100	Investment holding
Han Sung Motor Company Limited	Corporate	Korea	WON7,550,000,000	97	97	Investment holding and trading of motor vehicles
Asia Pacific Star Limited	Corporate	British Virgin Islands @	US\$1	100	100	Investment holding
Beijing Star Automobile Service Company Limited *	Sino-foreign joint venture enterprise	PRC	US\$10,000,000	60	60	Motor vehicle repairs and maintenance
Jinan Star Automobile Repair and Service Company Limited *	Sino-foreign joint venture enterprise	PRC	US\$5,000,000	60	60	Motor vehicle repairs and maintenance
Dalian Star Automobile Service Company Limited *	Sino-foreign joint venture enterprise	PRC	US\$5,000,000	51	51	Motor vehicle repairs and maintenance

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2003

45. Subsidiaries (Continued)

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				2003	2002	
Qingdao Star Automobile Service Company Limited *	Sino-foreign joint venture enterprise	PRC	US\$1,650,000	60	60	Motor vehicle repairs and maintenance
Northern Star Automobile (Hong Kong) Limited	Corporate	Hong Kong	HK\$1,000	59	59	Trading of motor vehicles
Northern Star (Tianjin) Automobile Limited *	Sino-foreign joint venture enterprise	PRC	US\$30,000,000	59	59	Trading of motor vehicles
Lei Shing Hong (Singapore) Pte Ltd *# (formerly Kalstar (S) Pte Limited)	Corporate	Singapore	S\$7,000,000	100	100	Trading of vehicle spare parts
Lei Shing Hong Machinery Limited #	Corporate	Hong Kong	HK\$100,000,000	100	100	Investment holding and trading of heavy machinery
Lei Shing Hong Machinery (Kunshan) Company Limited	WFOE ⁺	PRC	US\$6,000,000	100	100	Trading of heavy machinery
Lei Shing Hong Machinery (Shanghai) Company Limited	WFOE ⁺	PRC	US\$500,000	100	100	Trading of heavy machinery
Lei Shing Hong Properties Limited #	Corporate	Hong Kong	HK\$1,000,000,000	100	100	Investment holding

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2003

45. Subsidiaries (Continued)

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				2003	2002	
Lei Shing Hong Properties (China) Limited	Corporate	Hong Kong	HK\$10,000	100	100	Investment holding
Shanghai Lee Kwok Properties Limited *	WFOE ⁺	PRC	US\$12,000,000	100	100	Property development
Beijing Bao Xing Property Company Limited *	Sino-foreign joint venture enterprise	PRC	US\$12,000,000	95	95	Property development
Lei Sing Property Development (Shanghai) Limited *	Sino-foreign joint venture enterprise	PRC	US\$20,000,000	95	95	Property development
Lei Shing Hong Trading Limited #	Corporate	Hong Kong	HK\$10,000,000	100	100	General trading
Lei Shing Hong Wood Products Limited	Corporate	British Virgin Islands [@]	US\$2,000,000	100	100	General trading
Lei Shing Hong Wood Products (Shanghai) Company Limited	WFOE ⁺	PRC	US\$1,000,000	100	100	General trading
Lei Shing Hong Capital Limited #	Corporate	Hong Kong	HK\$10,000	100	100	Financial services
Lei Shing Hong Investment Limited	Corporate	Hong Kong	HK\$10,000	100	100	Share trading and investment and foreign exchange trading
Lei Shing Hong Securities Limited	Corporate	Hong Kong	HK\$100,000,000	100	100	Securities dealing

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45. Subsidiaries (Continued)

Name	Business structure	Place of incorporation/ registration and operations	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity attributable to the Company		Principal activities
				2003	2002	
Lei Shing Hong Insurance Services Limited	Corporate	Hong Kong	HK\$100,000	100	100	Insurance brokerage
Lei Shing Hong Finance Limited	Corporate	Hong Kong	HK\$45,000,000	100	100	Provision of financial services
Lei Shing Hong Credit Limited	Corporate	Hong Kong	HK\$10,000	100	100	Provision of financial services

* Audited by public accountants other than Ernst & Young

Directly held by the Company

@ The principal place of operations is Hong Kong

+ Wholly foreign-owned enterprise

The above summary lists the principal subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed 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.

46. Associates

Particulars of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2003	2002	
Capital Motors Inc.	Corporate	Taiwan	34.9	34.9	Trading of motor vehicles
Shanghai Ben Chi Automobile Limited #	Sino-foreign joint venture enterprise	PRC	55	55	Trading of motor vehicles
Shanghai Dong Chi Automobile Service Company Limited #	Sino-foreign joint venture enterprise	PRC	55	55	Trading of motor vehicles
Mercedes-Benz Korea Limited *	Corporate	Korea	47.5	47.5	Trading of motor vehicles
DaimlerChrysler Services Korea Limited *	Corporate	Korea	19.4	19.4	Provision of financial services
DaimlerChrysler Services China Limited *	Corporate	Hong Kong	20	20	Provision of financial services

* Audited by public accountants other than Ernst & Young

The interests in these companies have not been accounted for as subsidiaries because the directors consider that the Group does not exercise unilateral control over the joint ventures' boards of directors.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

47. Post balance sheet event

On 28 February 2004, the Group entered into a sale and purchase agreement to acquire a 100% interest in Capital Machinery Limited, which is engaged in the distribution of Caterpillar heavy equipment in Taiwan. The purchase consideration for the acquisition was HK\$849,000 and in the form of cash.

48. Comparative amounts

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

49. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.