

# Notes to Financial Statements

31 December 2004

## 1. Corporate information

The registered office of Lei Shing Hong Limited is located at 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 and provision of after-sales services
- trading of heavy equipment and provision of product support services
- property development and investment
- general trading
- securities broking and trading
- trading of foreign exchange
- money lending

## 2. Impact of recently issued Hong Kong Financial Reporting Standards ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 3. Summary of significant accounting policies

### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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 2004. 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.

## Notes to Financial Statements (Continued)

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### 3. Summary of significant accounting policies (Continued)

#### Subsidiaries

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

A joint venture company is treated as:

- (a) a subsidiary, if the Group, directly or indirectly, controls more than half of the voting power or issued share capital, or controls the composition of the board of directors;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;
- (c) an associate, if the Group 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 Group 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### 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 the consolidated reserves at the time of acquisition, is included as part of the Group's interests in associates.

#### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Goodwill (Continued)

Prior to the adoption of SSAP 30 “Business combinations” in 2001, goodwill arising on acquisitions was either eliminated against the 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 the 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 the 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 the 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.

#### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Negative goodwill (Continued)

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 and 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.

#### Trading right

Trading right, representing the eligibility right to trade on the Stock Exchange, is 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 right over its estimated useful life of 10 years.

## Notes to Financial Statements (Continued)

31 December 2004

## 3. Summary of significant accounting policies (Continued)

**Fixed assets and depreciation**

Fixed assets, other than investment properties and construction in progress, 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.

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%

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.

**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.

## Notes to Financial Statements (Continued)

31 December 2004

### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 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, if any, 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 in 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 in the period in which they arise.

## Notes to Financial Statements (Continued)

31 December 2004

### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Income tax (Continued)

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
- 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 overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Foreign currencies (Continued)

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

#### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Employee benefits (Continued)

##### *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. The Group's employer contributions based on 5% of the employees' relevant income will be fully vested by the employees upon retirement.

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 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### 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.

#### 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.

## Notes to Financial Statements (Continued)

31 December 2004

### 3. Summary of significant accounting policies (Continued)

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section in the balance sheet, until they have been approved by the shareholders in the annual general meeting. 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.

#### 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 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 the sale of properties, on the percentage of completion basis as explained under "Profit on sale of properties under development" above;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) currency options premiums, on the transaction date when the relevant currency options contract is entered into;
- (f) dividend income, when the shareholders' right to receive payment has been established;
- (g) from the 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; and
- (j) rental income, on a time proportion basis over the lease terms.

## Notes to Financial Statements (Continued)

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## 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 gains/(losses); net gains on dealing in listed investments; commission and brokerage income from securities dealing; and insurance brokerage income, but excludes intra-group transactions.

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

HK\$'000	2004	2003
Turnover		
Sale of goods	7,939,413	8,717,449
Rendering of repair services	380,405	271,317
Sale of properties	128,532	138,679
Interest income from:		
Time deposits	2,778	3,295
Term loans and margin loans	12,672	28,545
Equity linked notes	341	1,759
Credit linked notes	3,669	1,490
Premium received from currency options	–	17,424
Dividend income from listed investments	7,115	2,603
Foreign exchange trading gains/(losses), net	7,994	(3,703)
Net gains on dealing in listed investments	55,901	8,718
Commission and brokerage income from securities dealing	7,062	3,991
Insurance brokerage income	865	733
	<b>8,546,747</b>	<b>9,192,300</b>
Other revenue and gains		
Gain on disposal of subsidiaries (note 38(c))	90,795	13,402
Unrealised gains on revaluation of short term investments	27,359	–
Gross rental income	24,033	16,987
Other interest income	10,644	4,756
Other income	22,065	53,877
	<b>174,896</b>	<b>89,022</b>

## Notes to Financial Statements (Continued)

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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	2004	2003
Cost of inventories sold		7,407,316	8,100,795
Cost of services rendered		225,926	167,723
Depreciation	13	70,354	53,914
Amortisation of goodwill arising from acquisitions of subsidiaries*	16	45,322	44,928
Amortisation of goodwill arising from acquisition of an associate*	19	17,898	17,898
Amortisation of trading right*	20	300	300
Minimum lease payments under operating leases for land and buildings		37,456	18,923
Provision for doubtful debts		3,170	7,117
Provision against inventories		5,970	13,597
Auditors' remuneration		4,000	2,574
Staff costs (including directors' remuneration (note 7)):			
Wages and salaries		253,761	195,558
Pension scheme contributions		12,801	9,021
Less: Forfeited contributions		(631)	(186)
Net pension scheme contributions		12,170	8,835
		265,931	204,393
Foreign exchange losses/(gains), net		(17,699)	2,631
Provision for losses on open foreign exchange positions		–	21,533
Provision for long service payments	32	7,191	10,177
Unrealised losses/(gains) on revaluation of short term investments		(27,359)	432
Write-back of provision for product warranties	32	(2,426)	(4,929)
Write-back of provision for a foreseeable loss on properties held for sale		(5,469)	(23,967)
Dividend income from listed investments		(7,115)	(2,603)
Write-back of provision against loans receivable		–	(30,000)
Rental income, net		(20,022)	(16,540)
Gain on disposal of subsidiaries		(90,795)	(13,402)
Loss/(gain) on disposal of fixed assets, net		1,304	(3,755)
Interest income		(30,104)	(39,845)

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

## Notes to Financial Statements (Continued)

31 December 2004

## 5. Profit from operating activities (Continued)

At the balance sheet date, forfeited contributions amounting to HK\$10,000 (2003: HK\$89,000) were available to reduce the Group's future pension contributions. The current year's forfeited contributions arose in respect of staff who left the occupational retirement scheme during the year.

## 6. Finance costs

HK\$'000	Group	
	2004	2003
Interest on borrowings wholly repayable within five years:		
Bank loans	58,013	50,541
Trust receipt loans	28,388	35,643
Bank overdrafts	2,466	711
Total interest	88,867	86,895
Less: Interest capitalised	(1,351)	(8,731)
	<b>87,516</b>	<b>78,164</b>

## 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	
	2004	2003
Fees:		
Executive directors	–	–
Non-executive directors	200	–
Independent non-executive directors	200	180
	<b>400</b>	<b>180</b>
Executive directors:		
Salaries, allowances and benefits in kind	10,340	9,000
Performance related bonuses	2,382	2,150
Pension scheme contributions	719	675
	<b>13,441</b>	<b>11,825</b>
	<b>13,841</b>	<b>12,005</b>

## Notes to Financial Statements (Continued)

31 December 2004

## 7. Directors' remuneration (Continued)

For the year ended 31 December 2004:

## (a) Independent non-executive directors

The fees paid and payable to independent non-executive directors were as follows:

HK\$'000	
FUNG Ka Pun	100
MEIER Hubert	50
SMITH Alan Howard, JP	50
	200

There were no other emoluments payable to the independent non-executive directors during the year.

## (b) Executive directors and non-executive directors

HK\$'000	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total emoluments
Executive directors:					
GAN Khian Seng	–	3,000	750	225	3,975
YONG Foo San, JP	–	2,650	600	154	3,404
HARMS Volker Josef Eckehard	–	1,200	200	90	1,490
LIM Mooi Ying, Marianne	–	3,000	750	225	3,975
LAM Kwong Yu	–	490	82	25	597
	–	10,340	2,382	719	13,441
Non-executive directors:					
YANG Victor	100	–	–	–	100
LANGLEY Christopher Patrick, OBE	100	–	–	–	100
	200	–	–	–	200
	200	10,340	2,382	719	13,641

## Notes to Financial Statements (Continued)

31 December 2004

## 7. Directors' remuneration (Continued)

For the year ended 31 December 2003:

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

Number of directors	
Nil-HK\$1,000,000	3
HK\$1,000,001-HK\$1,500,000	1
HK\$2,000,001-HK\$2,500,000	1
HK\$3,500,001-HK\$4,000,000	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 three (2003: two) executive directors, further details of whose remuneration are disclosed in note 7. The details of the remuneration of the remaining two (2003: three) non-director, highest paid employees for the year are set out below:

	Group	
HK\$'000	2004	2003
Salaries, allowances and benefits in kind	4,622	6,323
Pension scheme contributions	257	335
Performance related bonuses	310	1,870
	<u>5,189</u>	<u>8,528</u>

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

Number of employees	2004	2003
HK\$2,000,001-HK\$2,500,000	1	1
HK\$2,500,001-HK\$3,000,000	1	1
HK\$3,500,001-HK\$4,000,000	-	1

## Notes to Financial Statements (Continued)

31 December 2004

## 9. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. 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	
		2004	2003
Group:			
Current – Hong Kong			
Charge for the year		18,443	2,256
Over provision in prior years		(246)	(99)
Current – Elsewhere		29,820	58,820
Deferred	34	569	10,361
		<b>48,586</b>	<b>71,338</b>
Share of tax attributable to a jointly-controlled entity:			
Elsewhere		3,585	(1,963)
Share of tax attributable to associates:			
Elsewhere		21,426	6,831
Total tax charge for the year		<b>73,597</b>	<b>76,206</b>

## Notes to Financial Statements (Continued)

31 December 2004

## 9. Tax (Continued)

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

HK\$'000	Group	
	2004	2003
Profit before tax	306,217	338,172
Tax at Hong Kong statutory tax rate	53,588	59,180
Tax effect arising from higher tax rates of overseas subsidiaries, associates and a jointly-controlled entity, ranging from 15% to 33%	11,901	17,565
Tax effect of non taxable income	(12,661)	(23,472)
Tax effect of non deductible expenses	17,763	16,356
Effect on opening deferred tax resulting from increase in Hong Kong profits tax rate	–	(440)
Utilisation of tax losses	(4,806)	(5,558)
Tax losses not recognised	3,306	13,287
Adjustments in respect of current tax of previous periods	(246)	(99)
Reversal of a taxable timing difference arising on the revaluation of leasehold properties	(437)	(437)
Provision/(reversal) of a taxable timing difference arising on the unremitted earnings of certain of the Group's overseas investments	5,189	(176)
Tax charge at the Group's effective rate	73,597	76,206

## Notes to Financial Statements (Continued)

31 December 2004

**10. Net profit from ordinary activities attributable to shareholders**

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company was HK\$13,634,000 (2003: HK\$58,904,000) (note 37(b)).

**11. Dividend**

HK\$'000	Company	
	2004	2003
Proposed final – HK 3 cents (2003: HK 3 cents) per ordinary share	31,816	28,535

The proposed final dividend for the year, having taken into account the warrants subsequently exercised as further disclosed in note 47 to the financial statements, 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\$	2004	2003
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	240,006,000	234,412,000
Number of shares	2004	2003
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	1,000,720,460	951,168,826
Weighted average number of ordinary shares:		
Assumed issued at no consideration on deemed exercise of all warrants outstanding during the year	24,433,536	40,225,883
Weighted average number of ordinary shares used in diluted earnings per share calculation	1,025,153,996	991,394,709

As the subscription prices of the share options outstanding during the years ended 31 December 2004 and 2003 are higher than the respective average market prices of the Company's shares during these years, there is no dilution effect on the basic earnings per share.

Notes to Financial Statements (Continued)  
31 December 2004

### 13. Fixed assets Group

HK\$'000	Notes	Construction in progress	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Vessel	Total
Cost:								
At 1 January 2004		94,912	706,957	26,512	165,066	98,838	1,850	1,094,135
Exchange adjustments		458	43,636	134	11,498	5,157	-	60,883
Additions		118,909	115,655	10,417	94,226	59,333	-	398,540
Disposals		-	(2,335)	(195)	(3,736)	(24,793)	-	(31,059)
Acquisition of a subsidiary	38(e)	-	47,122	-	10,466	-	-	57,588
Transfers		(140,051)	140,051	-	-	-	-	-
Reclassification	15	-	(16,506)	-	-	-	-	(16,506)
At 31 December 2004		74,228	1,034,580	36,868	277,520	138,535	1,850	1,563,581
Accumulated depreciation:								
At 1 January 2004		-	104,763	12,429	103,522	37,589	1,187	259,490
Exchange adjustments		-	4,684	54	8,115	1,121	-	13,974
Provided during the year		-	22,999	4,239	23,538	19,393	185	70,354
Disposals		-	-	(4)	(2,101)	(7,240)	-	(9,345)
Reclassification	15	-	(1,869)	-	-	-	-	(1,869)
At 31 December 2004		-	130,577	16,718	133,074	50,863	1,372	332,604
Net book value:								
At 31 December 2004		74,228	904,003	20,150	144,446	87,672	478	1,230,977
At 31 December 2003		94,912	602,194	14,083	61,544	61,249	663	834,645

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

HK\$'000	Hong Kong	Elsewhere	Total
Freehold	-	387,424	387,424
Long term leases	8,505	39,924	48,429
Medium term leases	-	464,851	464,851
Short term leases	-	3,299	3,299
Net book value at 31 December 2004	8,505	895,498	904,003

At 31 December 2004, certain of the Group's leasehold land and buildings with a net book value of approximately HK\$11,250,000 (2003: HK\$9,750,000) were pledged to secure general banking facilities granted to the Group (note 33).

## Notes to Financial Statements (Continued)

31 December 2004

### 13. Fixed assets (Continued)

#### Company

HK\$'000	Leasehold land and building	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Vessel	Total
Cost:						
At 1 January 2004	10,500	359	12	8,419	1,850	21,140
Additions	–	91	–	–	–	91
At 31 December 2004	10,500	450	12	8,419	1,850	21,231
Accumulated depreciation:						
At 1 January 2004	1,785	152	12	3,356	1,187	6,492
Provided during the year	210	67	–	1,193	185	1,655
At 31 December 2004	1,995	219	12	4,549	1,372	8,147
Net book value:						
At 31 December 2004	8,505	231	–	3,870	478	13,084
At 31 December 2003	8,715	207	–	5,063	663	14,648

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

Notes to Financial Statements (Continued)  
31 December 2004

## 14. Properties under development

HK\$'000	Group	
	2004	2003
At 1 January	1,092,704	1,251,994
Exchange adjustments	3,634	(2,531)
Additions, at cost	221,330	86,000
Disposal of subsidiaries (note 38(c))	–	(184,891)
Reclassified as “Properties held for sale” within the current assets section in the consolidated balance sheet	(14,204)	(57,868)
At 31 December	1,303,464	1,092,704

Finance costs of HK\$1,351,000 (2003: HK\$8,731,000) were capitalised during the year (note 6).

Details of the properties under development are as follows:

Location	Use	Group's 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, the People's Republic of China (“PRC”)	Residential/ Retail	95%	100,000m <sup>2</sup>	300,000m <sup>2</sup>	Phase II/III under construction/ design	Phase II/III 2006/2007
Lots A and B, 1319, Yan An Xi Road, Changning District, Shanghai, PRC	Residential/ Commercial/ Retail	100%*	15,363m <sup>2</sup>	74,000m <sup>2</sup>	Under construction	2005
Lot No.7, Cheng Du Road, Jingan District, Shanghai, PRC	–	95%	7,358m <sup>2</sup>	44,148m <sup>2</sup>	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 m<sup>2</sup> upon completion in accordance with the terms and conditions of the land use agreement with the PRC party.

## Notes to Financial Statements (Continued)

31 December 2004

## 15. Investment properties

HK\$'000	Group		Company	
	2004	2003	2004	2003
At 1 January	70,727	71,084	2,091	2,091
Exchange adjustments	–	(357)	–	–
Reclassified from fixed assets (note 13)	14,637	–	–	–
At 31 December	85,364	70,727	2,091	2,091

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

Location	Group's interest	Gross floor area	Existing use
Unit 703A-B, 7th Floor, Citic Building, Jin Sha Road East, Long Hu District, Shantou, Guangdong, PRC	100%	447.4m <sup>2</sup>	Office
Rooms 1201-06 on 12th Floor and the whole of 24th Floor and car parking spaces nos. 90, 91, 92, 93, 94 and 95 in Basement 2, Guangzhou International Trading Centre, No.1, Lin He Road West, Tianhe District, Guangzhou, Guangdong, PRC	100%	2,956.2m <sup>2</sup>	Office
16th Floor and car parking spaces nos. 51 & 52 on 2nd Tower Basement, Shartex Plaza, No. 88, Zun Yi Nan Road, Changning District, Shanghai, PRC	100%	954.0m <sup>2</sup>	Office
1000 Huashan Road, Changning District, Shanghai, PRC	100%	714.7m <sup>2</sup>	Office

At 31 December 2004, except for an investment property with a carrying value of approximately HK\$14,637,000 whose estimated open market value was determined by management with reference to recent transactions in similar properties, the other 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 summary details of which are included in note 41(a) to the financial statements.

Notes to Financial Statements (Continued)  
31 December 2004

## 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 2004	899,752
Purchase of additional interests in subsidiaries (note 38(d))	791
Acquisition of a subsidiary (note 38(e))	11,909
At 31 December 2004	<u>912,452</u>
Accumulated amortisation:	
At 1 January 2004	185,735
Provided during the year	45,322
At 31 December 2004	<u>231,057</u>
Net book value:	
At 31 December 2004	<u>681,395</u>
At 31 December 2003	<u>714,017</u>

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 the 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 2004, 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 (2003: HK\$3,082,000) and HK\$12,011,000 (2003: HK\$12,011,000), respectively. The amount of goodwill is stated at cost.

## Notes to Financial Statements (Continued)

31 December 2004

## 17. Interests in subsidiaries

HK\$'000	Company	
	2004	2003
Unlisted shares, at cost	3,366,673	3,366,673
Due from subsidiaries	2,411,258	2,535,871
Due to subsidiaries	(555,802)	(1,301,941)
	5,222,129	4,600,603
Less: Provisions for impairment	(519,100)	(519,100)
	4,703,029	4,081,503

Certain unsecured amounts due from subsidiaries are interest-bearing at approximately 2.4% per annum and have no fixed terms of repayment. Certain unsecured amounts due to subsidiaries are interest-bearing at rates ranging from approximately 0.9% to 1.4% per annum and have no fixed terms of repayment. Other amounts due from/to subsidiaries are unsecured, non interest-bearing and have no fixed terms of repayment.

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	
	2004	2003
Share of net assets	–	225,313

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of ownership interest to the Group		Principal activity
			2004	2003	
DaimlerChrysler Taiwan Limited	Corporate	Taiwan	–	34.7	Trading of motor vehicles

Notes to Financial Statements (Continued)  
31 December 2004

## 19. Interests in associates

HK\$'000	Group	
	2004	2003
Share of net assets other than goodwill	1,356,131	1,326,948
Unamortised goodwill:		
At 1 January	247,587	265,485
Provided during the year	(17,898)	(17,898)
At 31 December	229,689	247,587
Due from associates	7,358	2,554
Due to associates	(51,992)	(43,457)
	<b>1,541,186</b>	<b>1,533,632</b>

Amounts due from/to associates are unsecured, non interest-bearing and have no fixed terms of repayment.

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

The following is a condensed summary of certain financial information for the two years ended 31 December 2004, in respect of the major associate group, Capital Motors Inc. and its subsidiaries:

HK\$'000	2004	2003
<b>RESULTS</b>		
Turnover	2,128,826	1,835,871
Net profit attributable to shareholders	41,299	46,430
The Group's share of profit before tax for the year	26,672	25,781
<b>ASSETS AND LIABILITIES</b>		
Fixed assets	3,726,697	3,745,402
Other long term assets	439,127	176,445
Current assets	690,407	387,913
Current liabilities	(1,061,647)	(554,219)
Non-current liabilities	(188,907)	(269,928)
Net assets	3,605,677	3,485,613
Share of net assets attributable to the Group	1,258,381	1,216,479

The associates did not have any contingent liabilities at the balance sheet date (2003: Nil).

## Notes to Financial Statements (Continued)

31 December 2004

**20. Intangible asset**

## Group

HK\$'000	Trading right
Cost:	
At 1 January 2004 and 31 December 2004	3,000
Accumulated amortisation:	
At 1 January 2004	1,050
Provided during the year	300
At 31 December 2004	1,350
Net book value:	
At 31 December 2004	1,650
At 31 December 2003	1,950

**21. Long term investments**

HK\$'000	Group		Company	
	2004	2003	2004	2003
Overseas unlisted equity investments, at fair value	1,886	1,875	–	–
Investments in PRC companies, at fair value	202,133	57,337	–	–
Credit linked notes, at fair value	155,973	77,980	–	–
Transferable club membership debentures, at cost	7,905	5,040	1,820	1,820
Statutory deposits, at cost	217	209	–	–
	<b>368,114</b>	<b>142,441</b>	<b>1,820</b>	<b>1,820</b>

**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, receivable in 2006.

Notes to Financial Statements (Continued)  
31 December 2004

### 23. Short term investments

HK\$'000	Group	
	2004	2003
Listed equity investments, at market value:		
Hong Kong	148,703	47,689
Overseas	–	35,344
	<u>148,703</u>	<u>83,033</u>

### 24. Inventories

HK\$'000	Group	
	2004	2003
Motor vehicles and spare parts	2,320,648	1,216,086
Heavy equipment and spare parts	844,308	390,292
	<u>3,164,956</u>	<u>1,606,378</u>

The carrying amount of inventories carried at net realisable value included in the above balance was HK\$114,506,000 (2003: HK\$60,582,000) as at the balance sheet date.

### 25. Properties held for sale

HK\$'000	Group	
	2004	2003
Properties held for sale, at cost	171,589	288,879
Less: Provision for foreseeable loss	–	(5,469)
	<u>171,589</u>	<u>283,410</u>

As at 31 December 2004, certain properties held for sale with an aggregate carrying value of approximately HK\$70,400,000 are subject to deferred sales contracts pursuant to which the buyers are required to purchase the properties at agreed prices within three years from the respective contract dates. Down payments received from the buyers in the current year are included in the “Sundry payables and accruals” account. Sales will be recognised when ownership to the properties have been transferred to the buyers upon receipt of full payment.

## Notes to Financial Statements (Continued)

31 December 2004

**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.

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

HK\$'000	Group	
	2004	2003
Current	616,023	554,609
0-3 months	248,080	121,370
4-6 months	23,672	23,172
7-12 months	5,760	29,036
Over 1 year	68,788	11,282
	<b>962,323</b>	<b>739,469</b>

**27. Sundry receivables**

HK\$'000	Group		Company	
	2004	2003	2004	2003
Prepayments and deposits	147,820	123,482	611	515
Sundry debtors	301,909	142,334	1,366	385
	<b>449,729</b>	<b>265,816</b>	<b>1,977</b>	<b>900</b>

Notes to Financial Statements (Continued)  
31 December 2004

## 28. Cash and cash equivalents and pledged time deposits

HK\$'000	Group		Company	
	2004	2003	2004	2003
Cash and bank balances	840,744	463,255	6,171	6,465
Time deposits	326,310	1,338,094	55,919	429,880
	<b>1,167,054</b>	<b>1,801,349</b>	<b>62,090</b>	<b>436,345</b>
Less:				
Pledged time deposits for trading of foreign exchange	(161,327)	(864,887)	–	–
Pledged deposits from property purchasers	(3,728)	(1,716)	–	–
Pledged deposits for securing payments to a main contractor	(26,692)	–	–	–
Pledged time deposits for securing a loan advanced to a PRC company included in long term investments	(5,660)	–	–	–
	<b>(197,407)</b>	<b>(866,603)</b>	<b>–</b>	<b>–</b>
Cash and cash equivalents	<b>969,647</b>	<b>934,746</b>	<b>62,090</b>	<b>436,345</b>

## Notes to Financial Statements (Continued)

31 December 2004

**29. Trade and bills payables**

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

HK\$'000	Group	
	2004	2003
Current	2,124,367	1,509,718
0-3 months	56,207	363,480
4-6 months	11,812	8
7-12 months	1,445	–
1-2 years	32	–
	<b>2,193,863</b>	<b>1,873,206</b>

**30. Sundry payables and accruals**

HK\$'000	Group		Company	
	2004	2003	2004	2003
Accruals	216,954	195,045	2,744	2,464
Deposits received	204,515	130,983	–	26
Sundry payables	130,611	56,332	6	–
	<b>552,080</b>	<b>382,360</b>	<b>2,750</b>	<b>2,490</b>

**31. Interest-bearing bank borrowings and other non interest-bearing borrowing**

HK\$'000	Note	Group		Company	
		2004	2003	2004	2003
Bank overdrafts – unsecured	33	26,802	–	–	–
Current portion of bank loans	33	1,220,096	1,176,054	141,936	159,173
Trust receipt loans	33	1,241,504	1,210,016	–	–
Other loan – unsecured	33	95,000	4,647	95,000	4,647
		<b>2,583,402</b>	<b>2,390,717</b>	<b>236,936</b>	<b>163,820</b>

Notes to Financial Statements (Continued)  
31 December 2004

### 32. Provisions Group

HK\$'000	Product warranties	Long service payments	Total
At 1 January 2004	32,403	10,644	43,047
Exchange adjustment	4,986	372	5,358
Provided/(written back) during the year	(2,426)	7,191	4,765
Amounts utilised during the year	(9,020)	(6,295)	(15,315)
At 31 December 2004	25,943	11,912	37,855

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.

## Notes to Financial Statements (Continued)

31 December 2004

## 33. Interest-bearing bank borrowings and other non interest-bearing borrowing

HK\$'000	Group		Company	
	2004	2003	2004	2003
Bank overdrafts – unsecured	26,802	–	–	–
Bank loans:				
Secured	7,500	749,630	–	–
Unsecured	1,875,079	947,306	252,763	376,579
	1,882,579	1,696,936	252,763	376,579
Other loan – unsecured	95,000	4,647	95,000	4,647
Trust receipt loans	1,241,504	1,210,016	–	–
	3,245,885	2,911,599	347,763	381,226
Bank overdrafts repayable within one year or on demand	26,802	–	–	–
Bank loans repayable:				
Within one year or on demand	1,220,096	1,176,054	141,936	159,173
In the second year	129,367	289,904	11,666	190,230
In the third to fifth years, inclusive	463,120	230,978	64,163	27,176
Beyond five years	69,996	–	34,998	–
	1,882,579	1,696,936	252,763	376,579
Other loan repayable on demand	95,000	4,647	95,000	4,647
Trust receipt loans repayable within one year	1,241,504	1,210,016	–	–
	3,245,885	2,911,599	347,763	381,226
Portion classified as current liabilities (note 31)	(2,583,402)	(2,390,717)	(236,936)	(163,820)
Long term portion – unsecured	662,483	520,882	110,827	217,406

- (a) At 31 December 2004, a bank loan of the Group amounting to HK\$7,500,000 (2003: 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\$11,250,000 (2003: HK\$9,750,000) (note 13).
- (b) At 31 December 2004, the Group's and the Company's other loan is advanced by a major shareholder. This loan is unsecured, interest-free and is repayable on demand.
- (c) At 31 December 2003, the Group's short term bank loans amounting to HK\$743,130,000 were secured by fixed charges on foreign currency bank deposits of HK\$864,887,000.

Notes to Financial Statements (Continued)  
31 December 2004

### 34. Deferred tax

The movements in deferred tax liabilities and assets during the year are as follows:

#### Deferred tax liabilities

##### Group

HK\$'000	Fair value adjustments arising from acquisitions of subsidiaries		Unremitted earnings		Revaluation of properties		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
At 1 January	153,939	158,589	41,137	41,313	834	834	(265)	(8,988)	195,645	191,748
Deferred tax charged/(credited) to the profit and loss account during the year (note 9)	(4,521)	(4,650)	5,189	(176)	-	-	2,892	8,723	3,560	3,897
Gross deferred tax liabilities at 31 December	149,418	153,939	46,326	41,137	834	834	2,627	(265)	199,205	195,645

#### Deferred tax assets

##### Group

HK\$'000	Losses available for offsetting against future taxable profits		Provision		Others		Total	
	2004	2003	2004	2003	2004	2003	2004	2003
At 1 January	6,998	13,922	16,376	17,149	3,717	2,484	27,091	33,555
Deferred tax credited/(charged) to the profit and loss account during the year (note 9)	5,729	(6,924)	(6,937)	(773)	4,199	1,233	2,991	(6,464)
Disposal of a subsidiary (note 38(c))	-	-	-	-	(96)	-	(96)	-
Exchange differences	-	-	2,560	-	516	-	3,076	-
Gross deferred tax assets at 31 December	12,727	6,998	11,999	16,376	8,336	3,717	33,062	27,091

## Notes to Financial Statements (Continued)

31 December 2004

**34. Deferred tax (Continued)**

The Group has tax losses arising in Hong Kong of HK\$57,491,000 (2003: HK\$84,720,000) and in Mainland China of HK\$37,143,000 (2003: HK\$26,260,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets arising in Hong Kong and Mainland China 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. Share capital****Shares**

HK\$'000	2004	2003
Authorised:		
2,000,000,000 ordinary shares of HK\$1 each	2,000,000	2,000,000
Issued and fully paid:		
1,049,519,774 (2003: 951,168,826) ordinary shares of HK\$1 each	1,049,520	951,169

During the year, 98,350,948 ordinary shares of HK\$1 each were issued for cash at an exercise price of HK\$3 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$295,052,844. The warrant subscription reserve of HK\$49,175,000 attaching to the exercised warrants was accordingly reclassified into the share premium account.

A summary of the transactions during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK\$'000	Share premium account HK\$'000	Total HK\$'000
At 1 January 2004	951,168,826	951,169	2,459,521	3,410,690
Warrants exercised	98,350,948	98,351	245,877	344,228
At 31 December 2004	1,049,519,774	1,049,520	2,705,398	3,754,918

There were no changes to the carrying amount or the number of ordinary shares in issue during the prior year.

## Notes to Financial Statements (Continued)

31 December 2004

### 35. Share capital (Continued)

#### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 36 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.

During the year, 98,350,948 warrants were exercised for 98,350,948 ordinary shares of HK\$1 each at a price of HK\$3 per share. At the balance sheet date, the Company had 91,878,226 (2003: 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 91,878,226 additional ordinary shares of HK\$1 each.

Details of movements in the Company's issued ordinary share capital and warrants subsequent to the balance sheet date are set out in note 47 to the financial statements.

### 36. 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 the 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 could 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.

## Notes to Financial Statements (Continued)

31 December 2004

**36. Share option scheme (Continued)**

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.

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	Exercise 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 2004	Lapsed during the year	At 31 December 2004				
<b>Directors</b>							
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 Eckehard	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
	<u>2,800,000</u>	<u>–</u>	<u>2,800,000</u>				
Other employees in aggregate	3,175,000	(70,000)	3,105,000	2-8-1997	(Note)	5.89	7.75
	2,206,000	(60,000)	2,146,000	24-1-1998	(Note)	6.00	7.45
	<u>5,381,000</u>	<u>(130,000)</u>	<u>5,251,000</u>				
	<u>8,181,000</u>	<u>(130,000)</u>	<u>8,051,000</u>				

*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 8,051,000 share options outstanding under the Scheme, which represented approximately 0.77% 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 8,051,000 additional ordinary shares of the Company and an additional share capital of HK\$8,051,000 and share premium of HK\$39,693,450 before the related share issue expenses.

Notes to Financial Statements (Continued)  
31 December 2004

### 37. 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 page 40 of the financial statements.

Pursuant to the respective laws and regulations for Sino-foreign joint venture enterprises and the Republic of Korea ("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 the consolidated reserves and credited to the capital reserve, as explained in note 16 to the financial statements.

#### (b) Company

HK\$'000	Notes	Share premium account	Warrant subscription reserve	Retained profits	Total
At 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 and 1 January 2004		2,459,521	91,646	622,474	3,173,641
Exercise of warrants	35	245,877	(49,175)	–	196,702
Net profit for the year		–	–	13,634	13,634
Proposed 2004 final dividend	11	–	–	(31,816)	(31,816)
At 31 December 2004		2,705,398	42,471	604,292	3,352,161

## Notes to Financial Statements (Continued)

31 December 2004

## 38. Notes to the consolidated cash flow statement

## (a) Major non-cash transaction

During the year ended 31 December 2003, 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 31 and 33 to the financial statements.

## (c) Disposal of subsidiaries

HK\$'000	2004	2003
Net assets disposed of:		
Fixed assets	–	575
Properties under development (note 14)	–	184,891
Short term investments	–	336,523
Trade receivables, prepayments and deposits	12	–
Cash and bank balances	629	–
Deferred tax assets (note 34)	96	–
Interests in associates	44,425	–
Interest in a jointly-controlled entity	236,326	–
Trade payables, accruals and deposits received	(12)	(3,848)
Minority interest	(116,155)	–
	165,321	518,141
Gain on disposal of subsidiaries	90,795	13,402
Reserve funds released	(4,082)	–
Exchange reserve released	1,429	(1,267)
Incidental costs on disposal	–	1,655
	253,463	531,931
Satisfied by:		
Cash received	253,463	151,931
Loans receivable	–	320,000
Long term receivable	–	60,000
	253,463	531,931

Notes to Financial Statements (Continued)  
31 December 2004

### 38. Notes to the consolidated cash flow statement (Continued)

#### (c) Disposal of subsidiaries (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

HK\$'000	2004	2003
Cash received	253,463	151,931
Cash and bank balances disposed of	(629)	–
Incidental costs paid on disposal	–	(1,655)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	252,834	150,276

The subsidiaries disposed of during the year, whose major asset is an interest in a jointly-controlled entity, contributed approximately HK\$17 million (2003: HK\$3 million) to the consolidated profit after tax for the year and had no significant impact on the Group's consolidated turnover.

#### (d) Purchase of additional interests in subsidiaries during the year

HK\$'000	2004
Purchase of additional interests in subsidiaries, previously accounted for as minority interests	17,110
Goodwill on acquisition (note 16)	791
	17,901
Satisfied by:	
Cash	17,901

An analysis of the net outflow of cash and cash equivalents in respect of the purchase of additional interests in subsidiaries during the year is as follows:

HK\$'000	2004
Net outflow of cash and cash equivalents in respect of the purchase of additional interests in subsidiaries	17,901

## Notes to Financial Statements (Continued)

31 December 2004

## 38. Notes to the consolidated cash flow statement (Continued)

## (e) Acquisition of a subsidiary during the year

HK\$'000	2004
Net liabilities acquired:	
Fixed assets (note 13)	57,588
Cash and cash equivalents	61,987
Inventories	36,301
Sundry receivables	11,030
Sundry payables and accruals	(6,729)
Interest-bearing bank borrowings	(171,237)
	<u>(11,060)</u>
Goodwill on acquisition (note 16)	11,909
	<u>849</u>
Satisfied by:	
Cash	<u>849</u>

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary during the year is as follows:

HK\$'000	2004
Cash consideration	(849)
Cash and cash equivalents acquired	61,987
Net inflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>61,138</u>

The subsidiary acquired during the year contributed approximately HK\$232 million and HK\$7 million to the consolidated turnover and the consolidated profit after tax for the year, respectively.

## 39. 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\$282,778,000 (2003: HK\$689,823,000) and HK\$15,501,000 (2003: HK\$25,292,000), 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 amounting to HK\$5,992,100,000 (2003: HK\$4,348,600,000).

## Notes to Financial Statements (Continued)

31 December 2004

**40. Pledge of assets**

Details of the Group's bank borrowings secured by the assets of the Group are included in note 33 to the financial statements.

**41. 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 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

HK\$'000	Group	
	2004	2003
Within one year	12,774	14,295
In the second to fifth years, inclusive	26,802	11,740
	<b>39,576</b>	<b>26,035</b>

**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. At 31 December 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

HK\$'000	Group	
	2004	2003
Within one year	52,722	24,530
In the second to fifth years, inclusive	62,597	47,386
Beyond five years	62,306	70,069
	<b>177,625</b>	<b>141,985</b>

## Notes to Financial Statements (Continued)

31 December 2004

**42. Commitments**

In addition to the operating lease commitments detailed in note 41(b) above, the Group had the following commitments at the balance sheet date:

**(a) Capital commitments**

HK\$'000	Group	
	2004	2003
Contracted, but not provided for:		
Properties under development	598,569	416,260
Construction in progress	47,934	54,373
Leasehold improvements	1,201	–
Furniture, fixtures and equipment	238	–
Capital contributions payable to subsidiaries	108,688	–
	756,630	470,633
Authorised, but not contracted for:		
Construction in progress	14,009	26,369
Total capital commitments	770,639	497,002

**(b) Financial derivatives**

HK\$'000	Group	
	2004	2003
Foreign exchange forward contracts	–	832,763

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

**43. Related party transaction**

During the year, the Group disposed of a 51% owned subsidiary, Zhong Li Investment Limited, to Capital Motors Inc., an associate of the Company for a total cash consideration of HK\$253,463,000. Further details of the transaction are included in note 38(c) to the financial statements. The transaction also constituted a connected transaction as defined in Chapter 14A of the Listing Rules.

## Notes to Financial Statements (Continued)

31 December 2004

### 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 the other business segments. Summary details of the business segments are as follows:

- (a) the "Trading of motor vehicles and spare parts and provision of after-sales services" segment engages in the distribution of Mercedes-Benz passenger cars and the after-sales services in the Northern and Eastern regions of the PRC and Korea;
- (b) the "Trading of heavy equipment and provision of product support services" segment handles the distribution of Caterpillar heavy equipment and the product support services 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" 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.

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.

## Notes to Financial Statements (Continued)

31 December 2004

## 44. Segment information (Continued)

## (a) Business segments

The following table presents 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 and provision of after-sales services		Trading of heavy equipment and provision of product support services		Property development and investment		General trading	
	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:								
Sales to external customers	5,067,213	5,723,351	1,961,501	2,090,221	128,532	138,679	1,291,105	1,175,194
Intersegment sales	-	-	-	-	-	-	2,408,498	3,199,818
Intersegment revenue	5,850	-	-	-	205	989	17,168	23,062
Other revenue	129,142	71,674	3,252	586	5,509	8,068	8,964	3,418
Total	5,202,205	5,795,025	1,964,753	2,090,807	134,246	147,736	3,725,735	4,401,492
Segment results	111,786	200,699	85,380	91,176	(24,492)	766	54,283	57,281
Finance costs								
Share of profits and losses of:								
A jointly-controlled entity	20,675	759	-	-	-	-	-	-
Associates	57,501	18,656	-	-	-	-	160	407
Profit before tax								
Tax								
Profit before minority interests								
Minority interests								
Net profit from ordinary activities attributable to shareholders								
Segment assets	5,477,450	3,596,763	1,500,786	696,907	1,944,356	1,648,288	983,483	997,245
Interest in a jointly-controlled entity	-	225,313	-	-	-	-	-	-
Interests in associates	1,539,871	1,541,687	-	-	-	-	(14,233)	(20,236)
Unallocated assets								
Total assets								
Segment liabilities	2,878,984	1,656,307	327,678	474,612	81,197	88,539	120,170	776,514
Unallocated liabilities								
Total liabilities								
Other segment information:								
Depreciation	52,500	41,095	11,207	7,782	4,390	2,968	3	14
Amortisation	58,640	58,616	496	-	4,084	4,210	-	-
Other non-cash expenses, net	17,301	16,290	(3,434)	9,795	(5,469)	(23,831)	-	228
Capital expenditure	349,182	166,665	21,227	10,683	249,241	87,638	-	-

Notes to Financial Statements (Continued)  
31 December 2004

Securities broking and trading		Trading of foreign exchange		Money lending		Others		Eliminations		Consolidated	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
74,480	18,862	8,859	15,899	11,853	27,812	3,204	2,282	-	-	8,546,747	9,192,300
-	-	-	-	-	-	-	-	(2,408,498)	(3,199,818)	-	-
-	-	-	-	-	-	28,523	35,421	(51,746)	(59,472)	-	-
27,811	5,276	-	-	-	-	218	-	-	-	174,896	89,022
102,291	24,138	8,859	15,899	11,853	27,812	31,945	37,703	(2,460,244)	(3,259,290)	8,721,643	9,281,322
73,364	2,600	8,025	(12,223)	1,955	40,630	23,667	38,988	(17,168)	(23,244)	316,800	396,673
										(87,516)	(78,164)
-	-	-	-	-	-	-	-	-	-	20,675	759
-	-	-	-	-	-	(1,403)	(159)	-	-	56,258	18,904
										306,217	338,172
										(73,597)	(76,206)
										232,620	261,966
										7,386	(27,554)
										240,006	234,412
347,205	232,968	161,327	864,887	179,591	727,206	93,538	471,153	(708,755)	(801,076)	9,978,981	8,434,341
-	-	-	-	-	-	-	-	-	-	-	225,313
-	-	-	-	-	-	15,548	12,181	-	-	1,541,186	1,533,632
										33,062	27,091
										11,553,229	10,220,377
31,282	60,554	-	743,130	59,704	25,330	20,340	17,833	(708,755)	(801,076)	2,810,600	3,041,743
										3,473,276	2,391,121
										6,283,876	5,432,864
65	98	-	-	-	-	2,189	1,957	-	-	70,354	53,914
300	300	-	-	-	-	-	-	-	-	63,520	63,126
(27,508)	845	-	21,533	-	(30,000)	187	(900)	-	-	(18,923)	(6,040)
-	82	-	-	-	-	220	6,574	-	-	619,870	271,642

## Notes to Financial Statements (Continued)

31 December 2004

## 44. Segment information (Continued)

## (b) Geographical segments

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

## Group

HK\$'000	People's Republic of China								Consolidated	
	Hong Kong		Mainland China		Other Asian countries		Eliminations		2004	2003
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:										
Sales to external customers	868,706	918,453	4,848,747	5,904,144	2,829,294	2,369,703	-	-	8,546,747	9,192,300
Other segment information:										
Segment assets	2,910,344	3,741,885	5,995,609	3,373,924	1,781,783	2,119,608	(708,755)	(801,076)	9,978,981	8,434,341
Capital expenditure	289	7,674	464,977	214,167	154,604	49,801	-	-	619,870	271,642

## 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
				2004	2003	
Lei Shing Hong Automobile Limited <sup>#</sup>	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 <sup>+</sup>	PRC/ Mainland China	US\$4,460,000	100	100	Trading of motor vehicles
Shanghai Star Automobile Service Company Limited	WFOE <sup>+</sup>	PRC/ Mainland China	US\$3,600,000	100	100	Motor vehicle repairs and maintenance

Notes to Financial Statements (Continued)  
31 December 2004

#### 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
				2004	2003	
Xiamen Airport Star Automobile Repair Centre Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	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
Vietnam Star Automobile Limited*	Corporate	Vietnam	US\$2,359,436	100	–	Trading of motor vehicles
Beijing Star Automobile Service Company Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	US\$10,000,000	80	60	Motor vehicle repairs and maintenance
Jinan Star Automobile Repair and Service Company Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	US\$5,000,000	60	60	Motor vehicle repairs and maintenance
Dalian Star Automobile Service Company Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	US\$5,000,000	63	51	Motor vehicle repairs and maintenance
Qingdao Star Automobile Service Company Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	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/ Mainland China	US\$30,000,000	59	59	Trading of motor vehicles

## Notes to Financial Statements (Continued)

31 December 2004

## 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
				2004	2003	
Lei Shing Hong (Singapore) 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 equipment
Capital Machinery Limited	Corporate	Taiwan	NT\$200,000,000	100	-	Trading of heavy equipment
Lei Shing Hong Machinery (Kunshan) Company Limited	WFOE+	PRC/ Mainland China	US\$6,000,000	100	100	Provision of product support services of heavy equipment
Lei Shing Hong Machinery (Shanghai) Company Limited	WFOE+	PRC/ Mainland China	US\$500,000	100	100	Trading of heavy equipment
Lei Shing Hong Properties Limited#	Corporate	Hong Kong	HK\$1,000,000,000	100	100	Investment holding
Lei Shing Hong Properties (China) Limited	Corporate	Hong Kong	HK\$10,000	100	100	Investment holding
Shanghai Lee Kwok Properties Limited*	WFOE+	PRC/ Mainland China	US\$12,000,000	100	100	Property development
Beijing Bao Xing Property Company Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	US\$12,000,000	95	95	Property development
Lei Sing Property Development (Shanghai) Limited*	Sino-foreign joint venture enterprise	PRC/ Mainland China	US\$20,000,000	95	95	Property development
Lei Shing Hong Trading Limited#	Corporate	Hong Kong	HK\$10,000,000	100	100	Investment holding and general trading
Lei Shing Hong Wood Products Limited	Corporate	British Virgin Islands®	US\$2,000,000	100	100	Investment holding
Lei Shing Hong Wood Products (Shanghai) Company Limited	WFOE+	PRC/ Mainland China	US\$1,000,000	100	100	General trading
Lei Shing Hong Capital Limited#	Corporate	Hong Kong	HK\$10,000	100	100	Investment holding
Lei Shing Hong Investment Limited	Corporate	Hong Kong	HK\$10,000	100	100	Share trading and investment and foreign exchange trading

## Notes to Financial Statements (Continued)

31 December 2004

## 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
				2004	2003	
Lei Shing Hong Securities Limited	Corporate	Hong Kong	HK\$100,000,000	100	100	Securities dealing
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 ("WFOE")

The above table lists the 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 ownership interest to the Group		Principal activities
			2004	2003	
Capital Motors Inc.	Corporate	Taiwan	34.9	34.9	Trading of motor vehicles
DaimlerChrysler Taiwan Limited <sup>*/&amp;</sup>	Corporate	Taiwan	17.8	–	Trading of motor vehicles
Shanghai Ben Chi Automobile Limited <sup>*/#</sup>	Sino-foreign joint venture enterprise	PRC/Mainland	55	55	Trading of motor vehicles
Shanghai Dong Chi Automobile Service Company Limited <sup>*/#</sup>	Sino-foreign joint venture enterprise	PRC/Mainland	55	55	Trading of motor vehicles

## Notes to Financial Statements (Continued)

31 December 2004

## 46. Associates (Continued)

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest to the Group		Principal activities
			2004	2003	
Mercedes-Benz Korea Limited*	Corporate	Korea	47.5	47.5	Trading of motor vehicles
DaimlerChrysler Services Korea Limited <sup>*/@</sup>	Corporate	Korea	19.4	19.4	Provision of financial services
DaimlerChrysler Services China Limited*	Corporate	Hong Kong	20	20	Provision of financial services
Caterpillar Logistics Services China Limited*	Corporate	Hong Kong	30	30	Provision of logistics services

\* Audited by public accountants other than Ernst & Young

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

& The interest in this company has been accounted for as an interest in an associate because the Group has significant influence on the company, the shareholding in which is held through a 34.9% associate.

@ The interest in this company has been accounted for as an interest in an associate because the Group has significant influence on the company, the shareholding in which is held through a 97% subsidiary.

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 7 April 2005, 11,000,000 ordinary shares of HK\$1 each were issued for cash at an exercise price of HK\$3 per share pursuant to the exercise of the Company's warrants for a total cash consideration, before expenses, of HK\$33,000,000. In view of the exercise of the warrants, the issued share capital of the Company had been increased to 1,060,519,774 ordinary shares of HK\$1 each and the warrants outstanding had been reduced to 80,878,226 warrants as at 7 April 2005.

## 48. Approval of the financial statements

The financial statements were approved and authorised for issue by the board of directors on 14 April 2005.