

Five core businesses in promising high growth markets – distribution of premium automobiles and heavy machinery, property development and investments, the trading of commodities and financial investment and services.

Total turnover and profit attributable to shareholders of Lei Shing Hong Ltd amounted to HK\$9,192 million and HK\$234 million respectively for the year ended 31 December 2003.



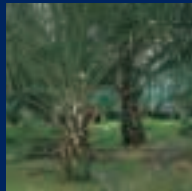
AUTOMOBILE DIVISION



MACHINERY DIVISION



PROPERTY DIVISION



TRADING DIVISION



FINANCIAL INVESTMENT AND SERVICES DIVISION

# Premium Brands



The Division distributes an accolade of luxurious, premium automobile brands in Northeast Asia. The Division is a distributor of Mercedes-Benz in the booming China market; Mercedes-Benz and Porsche in the Korea market; and a full range of Mercedes-Benz, Chrysler, Jeep as well as Smart in the Taiwan market.

During the year under review, the Division's turnover increased 62% from 2002. The Division was able to maintain its satisfactory performance despite the SARS outbreak in Asia, the US-Iraq war and the strong appreciation of Euro against Asian currencies that rendered European cars less competitive and eroded margins.

## CHINA

In 2003, the GDP achievement of 9.1%, and even more impressively, 9.9% during the fourth quarter, was a testimony of China's remarkable growth momentum and improving living standard and consumption power. The number of imported vehicles were in excess of 100,000 units last year. Over a period of three years the luxury car market more than tripled and is expected to continue its rapid growth.

During the year under review, the Division was able to maintain its satisfactory performance due to China's robust economic growth and development and due to the availability of financing for personal car ownership. 2003 was also the second consecutive year of tariff rate reductions for the automobile industry since China's accession into the WTO.

In addition, the Division launched the new face-lifted model of S class in the beginning of 2003 which contributed to the encouraging turnover



from car sales. With more extensive market penetration, parts sales also recorded a satisfactory performance.

In 2003, the Division committed to further solidifying its presence and enhancing its customer service standard. Construction and development of the multi-function flagship building in Shanghai progressed smoothly and is scheduled for completion and occupation by the second quarter of 2004. New showrooms and service outlets in various cities have also been established to provide better sales coverage, value-added services and convenient after-sales services for its customers. To further improve its competitiveness and technical competency, the Division established competent sales teams with appropriate training programs to ensure that they exercise the same level of service excellence throughout the Division's retail outlets.



China's economy is forecasted to grow 8.5% in 2004. Looking ahead, the Division will remain cautious in the face of uncertainty vis-a-vis the RMB revaluation and the abolishment of import quota and licence control by 1<sup>st</sup> January 2005.

#### TAIWAN

The Division distributes Mercedes-Benz products and DaimlerChrysler brands including Chrysler and Smart through its associate Capital Motors Inc., as well as a series of DaimlerChrysler brands including Chrysler, Smart and Jeep through its joint venture with DaimlerChrysler AG, DaimlerChrysler Taiwan Limited.





Despite the SARS outbreak and the appreciation of Euro, Taiwan's GDP in 2003 remained in line with the previous year (2002: 3.6%) and reached 3.5%. However, the total imported car market decreased 3% compared to 2002.

Compared to 2002, profit contribution in 2003 was down as a result of margin erosion due to an appreciating Euro. Sales of the Chrysler and Jeep models performed well, while Smart automobiles also generated good market acceptance.



The GDP growth forecast for Taiwan in 2004 is 4.6%. However, political uncertainty may level out the government's fiscal measures to strengthen domestic demand and spur capital goods expenditure in 2004. The newly proposed 10 New Major island-wide Construction Projects with an outlay of NT\$500 billion over 5 years is expected to boost local economy and consumer confidence.

## KOREA

During the year under review, the Division recorded an increase in turnover as compared to 2002. The newly completed Mercedes-Benz showroom in Suwon commenced operation in 2003 and demonstrating its commitment to customers and enhancing the brand value of Mercedes-Benz.

To propel its business development and increase customer awareness of its market presence in Korea, the Division aims to sharpen its competitiveness both internally and externally, through launching more distinctive showrooms to capture market share, perfecting customer service excellence, raising the overall management standard as well as optimizing staff efficiency through on-going training programs. The Division is cautiously confident that the export led economy will translate into domestic consumption growth and lead to an increase in the overall import car market, thus benefiting the luxury car market segment as well.

**During the year under review, the Division's turnover increased 62% from 2002.**

# Solid Foundation



Riding on its solid business foundation, the Division is the No. 1 hydraulic excavator dealer worldwide. The Division distributes a wide range of Caterpillar products, including heavy equipment, power systems and engines and provides technical services for the vast development of the Eastern China market.

Total industry sales of hydraulic excavators (“HEX”) were in excess of 28,000 units for the year. Competition was extremely severe particularly from Korean sourced products. During the year, the Division increased its market share and achieved Caterpillar dealer worldwide leadership for sales of HEX and successfully introduced the locally sourced Caterpillar D7G/D6G track-type tractor with encouraging sales results.

The engine business developed positively in 2003 with a growth of 30% in sales revenue over previous year. The nationwide power shortage problem created an opportunity for the Electric Power Generator sales during the winter season. The Oil and Gas segment remained steady with the Marine segment securing a positive order book at the year-end. During the year, Customer Services, Parts Operations and Technical Services were consolidated under one management headed by a newly appointed General Manager. This reorganization is expected to provide a more effective and efficient after sales service support for the growing machine and engine population.

In anticipation of the growing demand for heavy machinery and equipment, three new branches were added to the Division’s network in 2003, including Wuxi of Jiangsu Province, Huzhou and Taizhou City of Zhejiang Province. As at the end of the year, the Division has a total of 16 branches in operation within its designated territory. With the view of enhancing the efficiency and competency of its staff, the Division implemented a company-wide 6-Sigma program in April 2003. Phase I of the training has already been completed and all employees have already been introduced and exposed to the new culture.



Looking ahead, the construction machinery industry outlook remains positive with a continuing high level of public spending expected from the current emphasis on infrastructure development in Eastern China. However, measures taken in the last quarter of 2003 to tighten credit may dampen the level of growth in the year ahead. It is likely that the current power shortage will prevail in 2004 and the strong order book from the end of last year indicates further growth of genset sales. To sustain the robust development of the machinery business and parts and services operations, the Division will commit to enhancing its product support capabilities through its local branches, so as to provide comprehensive support to the fast growing equipment population.

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PROPERTY DIVISION

The Division is principally engaged in quality property development and investment in first tier cities such as Beijing and Shanghai.

# Living Harmony

## BEIJING

The Beijing property market flourished under the nation's rapid economic prosperity, the increasing income per capita as well as the growing awareness for quality living standard.

During the year under review, the combination of the increasingly competitive residential market in Beijing and the unexpected outbreak of SARS affected the overall property sales, including Phase I of the Division's 400,000 sq.m. Starcrest project. However, a number of supportive government policies helped to offset the negative impact on the property market, including the reduction in property tax from 2.0% to 1.6% for flats of 120 sq.m. and above, as well as the increased maximum loan ceilings from RMB300,000 to RMB400,000 granted by the Housing Fund Society from June to August 2003 to boost sales during the post-SARS period.

Leveraging on the Division's innovative design, high quality and comprehensive luxurious Clubhouse in Phase I, Starcrest has attracted both local and foreign buyers with encouraging results. Phase II will be developed into a complex property project comprising residential units, comprehensive communal facilities ranging from school, supermarket and retail shops, as well as a first-class, internationally managed fitness club. The design for Phase II has been progressing smoothly.



## SHANGHAI

Shanghai is another major first-tier city that the Division aims to develop its property business. The Division's development project on Yan An Xi Road commenced construction during the year under review and completion is expected in 2005.

Concerns of overheating of China's economy are being addressed by the government through the implementation of fiscal policies — tightening land supply and conditions for pre-sales of property and credit lending by banks. The Division will leverage its strong financial position and adopt a cautious approach towards property development in China.

The Division focuses to bring quality lifestyle and living harmony for the middle to upper markets.



# Bright Future

The steady growth momentum of the trading business is attributable to the promising development of the Greater China region as well as the emerging markets in Asia. The Division is optimistic of capturing the bright future from the burgeoning markets.

TRADING DIVISION



Trading, as well as commodity prices, has always been closely correlated to the global economic climate.

During the year under review, the Division recorded a satisfactory performance for its trading business, where it recorded an increase of 22% as compared to previous year. Most of the Division's trading commodities successfully achieved improvement in turnover.

Wood based trading had a difficult year with oversupply from exporting countries, driving down prices and margins. However, this business is expected to improve in 2004 as demand flows through from China's burgeoning middle class buying new homes or refurbishing old homes, and massive infrastructure and civil construction projects in Beijing and Shanghai in preparation for the hosting of the 2008 Olympics and 2010 World Expo.

The Division's watch component business suffered a minor setback due to the protracted deflationary trend in most of the consumer countries. The outlook of the watch business will be directly affected by the rate of market recovery and purchasing power in the global economies, particularly the US and Europe. In addition, positive measures from China to increase cross border tourism and trade (CEPA) between the hinterland and Hong Kong will bode well for this business.

As the Division predicted in 2002, sales of fertilisers performed most favorably,



maintaining its encouraging momentum throughout the year and outperforming expectations. Such sustainable progress is attributable to the steady and attractive commodity prices, namely palm oil and cocoa, which Malaysia, the producer country, continued to enjoy. Palm oil remains the cheapest oil in the world and more and more countries are importing it as an edible as well as industrial oil. Palm oil and cocoa prices are therefore expected to maintain its upward momentum in the coming year. The Division is confident that sales of fertilisers will continue to do well in 2004. The Division is also exploring opportunities in other emerging markets, such as Vietnam and Indonesia, where significant potentials exist in agricultural development.

**The Division recorded a satisfactory performance, 22% increase in turnover as compared to previous year.**

FINANCIAL INVESTMENT AND SERVICES DIVISION

Leveraging its acute insights and market familiarity to capture golden opportunities for personal financial growth, the Division's expertise spans across equities, portfolio management, securities trading, foreign exchange trading, as well as loan financing and automobile financing.

Golden Opportunities



Despite the series of unexpected events that unnerved the global and notably the Asian markets in the first half of 2003, the average daily turnover of Hong Kong's equity market increased by an encouraging 57% from HK\$6.5 billion in 2002 to HK\$10.2 billion in 2003. After SARS subsided in June, the investment sentiment rebounded rapidly in the second half of 2003. Various governmental policies were put in place to stimulate and accelerate the recovery of the Hong Kong economy, including the announcement of CEPA, the relaxation of travel restrictions for Mainland tourists visiting Hong Kong as well the relaxation of regulations to permit investors from Mainland China to invest in the Hong Kong shares.

Capitalising on the potential opportunities, the Division took the initiative to strengthen its client-account teams, with the view of capturing business opportunities and better servicing its customers to maximise satisfaction and returns. In addition, the Division will also implement a Propriety Network System in the

second quarter of 2004 to facilitate communication and processing. Well aware that the financial services market will become increasingly competitive, the provision of comprehensive and convenient services and encouraging investment returns will continue to be the core focus of the Division.

Amidst the current terrorist threats, cross-straits uncertainties, pressure on China to revalue the Yuan from the global market and continuing volatility of the three world major currencies of the US dollar, Euro and Yen, the Division is cautiously optimistic that it can achieve moderate growth in turnover and profit in the coming year.

**The provision of comprehensive and convenient services and encouraging investment returns will continue to be the core focus of the Division.**