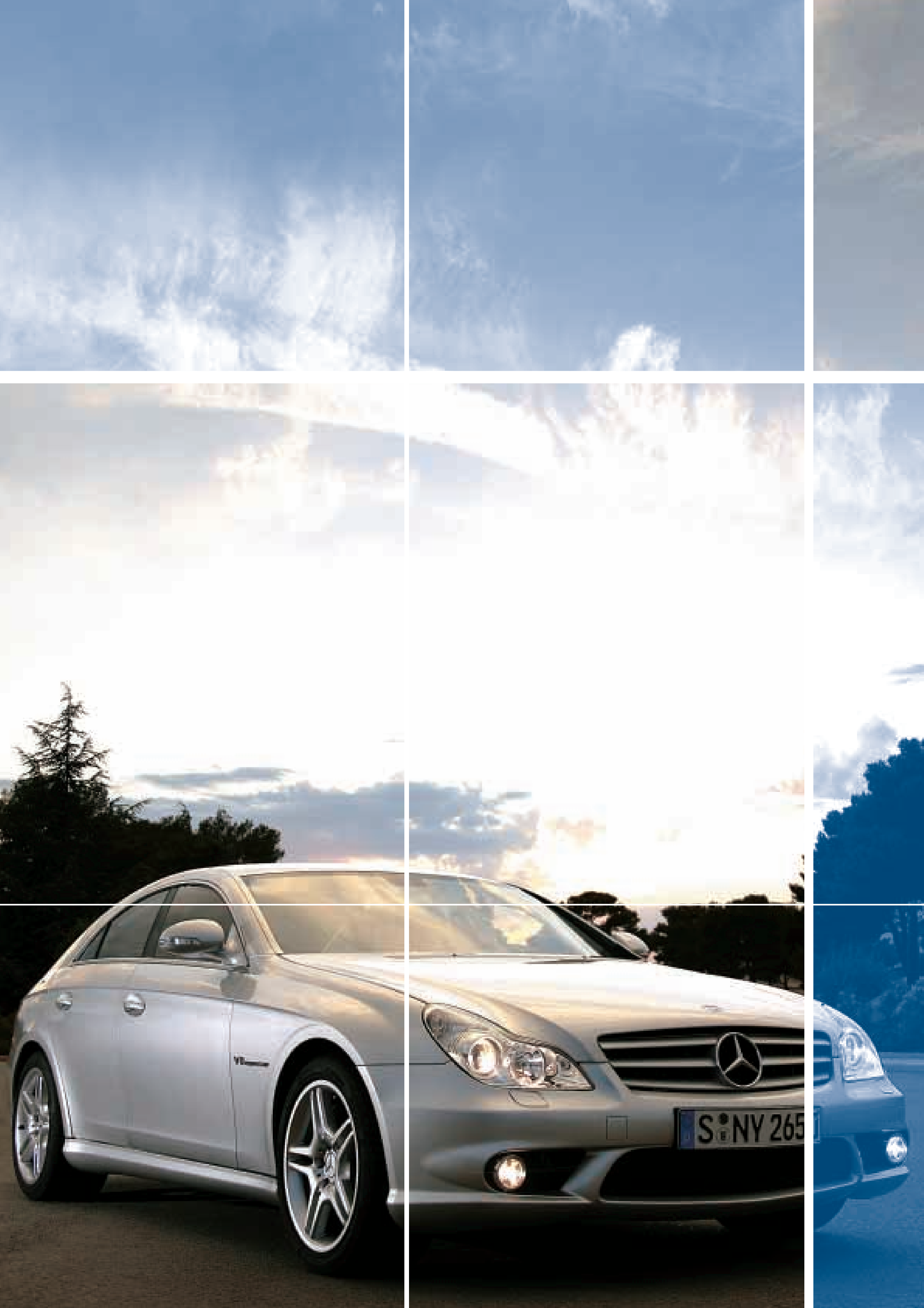
Management Discussion and Analysis

Lei Shing Hong
is principally engaged in five diversified businesses

- distribution of automobiles
- distribution of heavy machinery
- property development and investment
- trading of commodity
- financial investment and services


CAT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Automobile Division

The Automobile division distributes a portfolio of premium automobile brands in Northeast Asia. The division is a distributor of: Mercedes-Benz in the growing Mainland China market; Mercedes-Benz and Porsche in Korea; and a full range of Mercedes-Benz, Chrysler, Jeep and Smart in Taiwan. We operate integrated service workshops in all our markets, providing valuable after-sales services to customers.

Mainland China

During 2004, we continued with our strategy of developing our sales and after-sales network to capitalize on the expanding market. The market in 2004 was impacted by the government macro economic controls and by customers deferring purchase decisions for imported cars in anticipation of further tariff cuts. Our car sales decreased 10.4% in unit terms due to these market factors and 15.1% in monetary terms with declining average prices due to the lower tariffs and the intense competition because of high inventory levels. The price competition and the strength of the Euro also put pressure on the Group's margins.

Our well-established sales and after-sales network has accumulated a very large customer base. We significantly strengthened our capabilities with the opening of our multi-function Mercedes-Benz flagship facility located on the Shanghai 318 national highway. We opened four more Mercedes-Benz Autohaus outlets providing sales, servicing and parts, including our Shanghai Tian An showroom on Nanjing Road, with the other facilities located in Wenzhou, Urumqi and Nanjing.

The introduction of the new Mercedes-Benz SLK model in the middle of 2004 has enhanced awareness of the brand and sales were encouraging. New models to be launched in 2005 – include the CLS coupe, the S-Class luxury limousine and the new ML sports utility vehicle and these are expected to boost sales volumes.

Our vehicle servicing operations increased turnover by 25.9% over 2003 and made an increased contribution to the overall result.

Looking ahead, demand for new and used vehicles is expected to increase. The State Information Centre has forecast total auto sales to increase by 13% in 2005 and demand for passenger cars to rise by 17%. Factors behind this growth include a predicted 8.5% expansion of GDP for 2005, improved availability of financing, and the gradual liberalization of auto-retailing and auto-financing under the Central Government's commitments to the World Trade Organization. Against this scenario, the Central

Opening of our multi-function Mercedes-Benz flagship facility located on the Shanghai 318 national highway

M-Class

Government's measures to cool overheating and overcapacity in the automobile industry are expected to continue. The Group believes these measures will act as a counterbalance and allow the automobile industry in Mainland China to enjoy sustained expansion. Despite the inevitable strong competition we are well positioned to benefit from the industry's growth. To ensure we can maximize business opportunities we are actively expanding our dealership network and have an ongoing program to upgrade the quality of our after-sales services.

Taiwan

The Taiwan auto market grew by 10.2% in 2004, recording its fourth consecutive yearly growth since 2001.

Car sales through our associate Capital Motors Inc., increased by 7.3% in unit terms and by 16% measured in value terms reflecting stronger growth in sales of Mercedes-Benz brand vehicles and a favorable car mix.

Investment in our showroom refurbishment program continued, with this designed to enhance customer satisfaction and position us as Taiwan's leading car dealer in the premium car segment. Work on the Nan Kang showroom was completed in January 2005 and the showrooms at Ta An and Ming Sheng are scheduled to be ready by mid year. In Tai Chung, work on a brand new flagship showroom is expected to complete by the end of the third quarter of 2005.

Korea

Sales of imported cars broke through the level of 20,000 units for the first time, a 20% increase on the previous year. This was driven by strong growth in imports of Japanese brands reflecting a change of government policy towards imports from Japan. Sales in the premium sector were flat with our sales down 7% reflecting intense competition from BMW and Lexus.

CLS 55 AMG

Despite a Government initiative to reduce special consumption tax from 10% to 8% in March 2004, the overall demand for vehicles was weak as car buyers delayed purchases in anticipation of a further reduction in tax and the continued weak domestic economy coupled with political uncertainty.

Two new workshops at Seongsu and Yongdap were completed and commenced operations in the second half of 2004, with these new facilities enhancing customer satisfaction in our after-sales service. Customer service training was stepped up as part of an ongoing process to ensure service excellence and after-sales processes and systems were also enhanced. A new Mercedes-Benz showroom in Daechi was also completed and commenced operations in mid 2004.

A new Porsche center for Seoul will be completed by mid 2005 in a strategically located building in southern Seoul acquired at the end of 2004. This together with the strengthening of our Porsche management team under the leadership of a senior executive with extensive experience with the Porsche brand will provide the platform for further growth of the brand and our business in Korea.

Vietnam

During the year, the Group finalized arrangements for the establishment of a wholly-owned Mercedes-Benz dealership in Ho Chi Minh City. An integrated Autohaus facility offering sales, parts and service is presently being constructed and is expected to be operational in mid-2005. This new dealership marks our entry into Vietnam.


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Machinery Division

Our Machinery division is the largest hydraulic excavator dealer worldwide. We distribute a wide range of Caterpillar products, including heavy equipment, power systems and engines for power generation, dredging and pleasure craft. The division serves 18 cities throughout Eastern Mainland China.

Mainland China

While Mainland China achieved strong GDP growth of 9% in 2004, the Central Government measures to slow down investment and tighten credit control had a distinct effect on infrastructure development. This in turn impacted the Machinery division's results, with overall sales declining 6% from 2003.

Mainland China's hydraulic excavator market declined during 2004 by 20% following an exceptional year in 2003, with Eastern Mainland China most severely impacted with sales down over 30%. This led to significant oversupply, especially from Korean and Japanese manufacturers and resulted in increased price competition. The disappointing year for machine sales was concluded on a brighter note with the winning of a major contract at the end of the year to supply a large fleet of machines to a new landfill site in Shanghai.

Our power systems business achieved another record year with an increase of 141% in sales over 2003. The China-wide power shortage increased the opportunity for sales of electric power generators, while the buoyant shipbuilding, dredging and pleasure craft markets boosted sales of marine engines significantly. Sales of engines to oil field drill rig and port crane OEM's also continued at a high level.

The expanded product support business achieved increased parts and labour sales up by 19% reflecting increases in the equipment population and our improved product support network coverage. The division set up 14 customer support centres during 2004 to augment the support from the existing local branches, thus affording customers more effective and efficient support.

Sales of engines to oil field drill rig OEM continued at a high level

Caterpillar's hydraulic excavator

The strategy of upgrading and expanding customer support facilities was continued with the completion of the new Shanghai facility and the addition of two new branches, Linyi in Shandong Province and Jilin in Jilin Province. The Shanghai facility houses the Power Systems operation, Shanghai branch and the first Caterpillar rental store and engine showroom in Mainland China.

Looking ahead, we anticipate that the Central Government will continue to control the rate of development of infrastructure projects and that this will prevent any significant increase in the size of the construction equipment market. With the commencement of operations of Caterpillar Financial Services in Mainland China in early 2005, for end-user financing, we expect to improve our share of the available market for machine sales. Our engine business will continue to benefit from the seasonal power shortages and increasing demand for marine engines, oilfield drill rig and natural gas engines. The strong order book carried forward from 2004 along with 2005 demand is expected to generate another record year for engine sales. Parts and service sales are also anticipated to grow in 2005 as our customer support network and capabilities continue to expand and capitalise on the growing hydraulic excavator and engine populations.

Marine engines

Taiwan

In 2004, we completed the acquisition of the assets of the Caterpillar dealer business in Taiwan and established Capital Machinery Limited (CML) a move that extended the Group's distribution rights for Caterpillar to Taiwan.

Since the acquisition we have achieved a significant increase in volume, with sales of generator sets and marine engines both doing well. The business is progressing in line with our plans towards achieving further profitable growth.

Taiwan's 2005 GDP growth is expected to be slightly lower than the 5.4% recorded in 2004. The construction industry market is likely to mirror this, though increases in customer coverage will increase our share of the machine business. Sales of generator sets and marine engines are expected to slightly improve on 2004 results. Significant improvements are planned for our product support operations, with our focus on facilities, manpower and customer coverage expected to increase parts and service sales in 2005.

Property Division

The Group's Property division is engaged in quality property development and investment in major cities such as Beijing and Shanghai. The division's main current projects include the residential and commercial development "Starcrest" in Beijing's Wangjing district and "Lei Shing International Plaza" at Yan An Xi Road in Shanghai. Investment properties are held at strategic locations for long-term investment or future development.

Mainland China

Buying sentiment was strong during the year, supported by sustained GDP growth and accelerated infrastructure programs for the 2008 Olympics. Housing needs continue to grow as urban regeneration in major cities call for resettlement of large numbers of residents.

The Group completed Phase I of the Starcrest residential development in Beijing, a mid-scale property development aimed at the middle and upper income group from Mainland China and expatriates. We achieved excellent sales from both domestic and overseas purchasers and nearly all units in Phase I have now been sold. The foundations for Phase II were completed in December 2004 and foundation work for Phase III is scheduled to commence in the first quarter of 2006.

Starcrest is the division's first residential development in Beijing. The entire development of approximately 400,000 sq.m. of gross floor area upon completion will include residential and commercial units, integrated facilities of a recreation club, a school and landscape features. The project won the Best Landscape Design Award from Beijing's local government and sales for Phase I were highly encouraging. We believe we have established a key standard in Mainland China for modern living for young professionals. Our product development strategy at Starcrest has successfully positioned the development as a better choice from a lifestyle vantage point and this has been well received by the market. Likewise, we have ensured the design of Phase III of Starcrest differentiates itself from large-scale state-owned developers that offer a more conventional product. The Group is determined to build on this reputation for quality design and finishing and ensure it benefits all our property operations in Mainland China going forward.

Clubhouse entrance of Starcrest in Beijing

Clubhouse lobby of Starcrest in Beijing

In Shanghai, we commenced pre-completion sales for residential areas of our “Lei Shing International Plaza” at Yan An Xi Road, a 74,000 sq.m. development combining residential, commercial and retail. The prime location of this development on the west side of Shanghai is a major selling point.

The Group is now involved in its first commercial development in Beijing. We have invested in 32,000 sq.m. of land, on which three commercial properties with estimated gross floor areas of 159,000 sq.m. will be built. A memorandum of understanding for anchor tenancy is in place with a prominent multinational company for one of the properties and initial interest in the development from prestigious tenants is encouraging.

In 2004 there was evidence of high levels of speculation in Shanghai, where residential prices in the city centre increased by 28%. The Central Government’s macro-economic controls have to date included banking guidelines requiring reduced margin of financing of corporate and retail loans and a marginal upward revision of interest rates. These measures are considered to have an overall positive effect by dampening speculative property purchases and reducing the prevalence of under-capitalized property development companies.

Further macro-economic controls expected in 2005 are likely to impact approval of property development projects and land supply. Together with an anticipated further upward revision of interest rates, the Group expects flatten housing supply growth.

▲ *Clubhouse jacuzzi of Starcrest in Beijing*

◀ *This gymnasium at Starcrest in Beijing is indicative of the quality we have created*

▼ *A show suite at Starcrest showing a typical interior*

Trading Division

The Group's Trading division has operations in wood-based products, watch components and fertilizer trading. Wood-based products are imported from Malaysia and Papua New Guinea and exported to Mainland China. Watch components are traded within Hong Kong and fertilizers and chemicals are imported from Mainland China and Canada with sales mainly into Malaysia.

The Trading division's external sales increased by 10% in 2004, with a slight decline in volume in our wood-based trading and watch component businesses more than offset by strong growth in our fertilizer business. With this helped by the thriving palm oil industry in Malaysia.

The wood products market in Mainland China remained highly competitive with at least 15 countries supplying to the market. Prices were suppressed in the face of continuing weakness in prices for veneer, plywood and other wood-based finished products. The pricing pressure was aggravated by increased ocean freight costs, as well as the Central Government credit tightening measures. These difficulties were partly alleviated by increased shipments to India and Vietnam. We remain optimistic about the longer-term outlook for wood products, with an expected increase in demand in the run-up to the 2008 Olympics in Beijing and the 2010 World Expo in Shanghai.

In our watch-component business the effects of prolonged deflation in Hong Kong, coupled with weak consumption and intense competition, created difficult market conditions for most of the year. The operating environment is expected to improve in 2005 as the benefits of the Closer Economic Partnership Agreement (CEPA) in South Mainland China begin to be felt.

Steady agricultural commodity prices coupled with a general improvement in the economy helped deliver a 42% increase over 2003 in sales of fertilizers. Turnover in our fertilizer operations is expected to remain on track in the first half of 2005.

The division expanded its activities during the year with a new business marketing nylon yarn, sourced from Taiwan.

The Group will continue to closely monitor a range of key factors that can impact performance, include the macro-economic measures implemented in Mainland China, the power shortages in Mainland China, the continuing high cost of oil that is affecting production and freight costs, and interest rate increases in the US dollar and RMB.

We believe Southeast Asia has significant potential for our Trading business, especially with the renewed economic growth seen in Indonesia and we have strengthened our Singapore operation in order to take advantage of opportunities in the region. We are also confident of further opportunities in Mainland China as the market is liberalized and the Trading division is working closely with our Financial Investment and Services businesses to provide export markets and short-term finance for manufacturers.

Palm tree


STOCK NAME PRICE SHARE

Financial Investment and Services Division

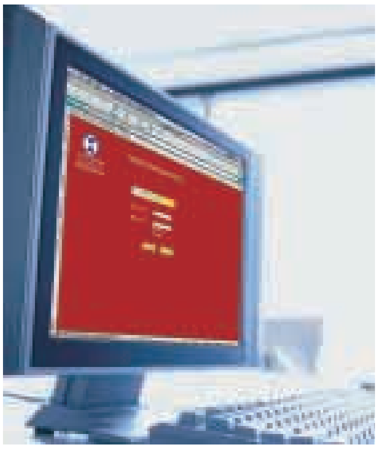
The Group's Financial Investment and Services division expertise spans across portfolio management, share trading and services, foreign exchange trading, securities brokerage and margin, term loan and automobile financing.

The division recorded a growth of 52% in turnover, on the back of renewed economic growth in Hong Kong and the region. The strong performance of the equity markets in 2004 has resulted in an increase in the daily turnover on the Hong Kong market during the year to HK$15.8 billion, a 52% rise over 2003.

We are a Category C broker and aim to increase our market share and expand our portfolio in margin financing. Our Internet trading business has developed steadily since the implementation of the Proprietary Network System (PNS), which serves to speed up execution of trades and enhance risk management. We continue to build our customer base.

Our investment activities focus on share trading in the regional markets and foreign exchange trading.

Our financing operations, which comprise term-loan financing and margin financing, recorded moderate growth during the year. In 2005 we expect to grow our loan financing business to include working capital financing.



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