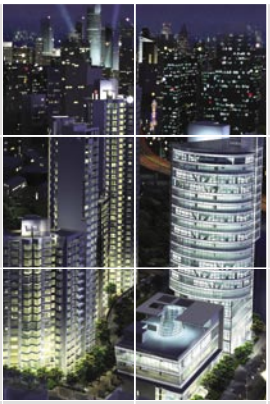
Automobile
Division

PREMIUM BRANDS

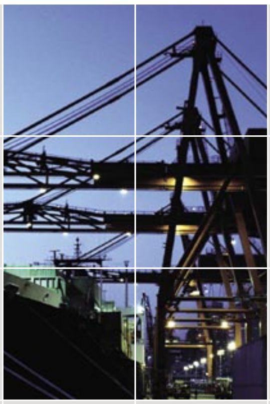
Management Discussion and Analysis

Lei Shing Hong is principally engaged in five diversified businesses

Machinery Division



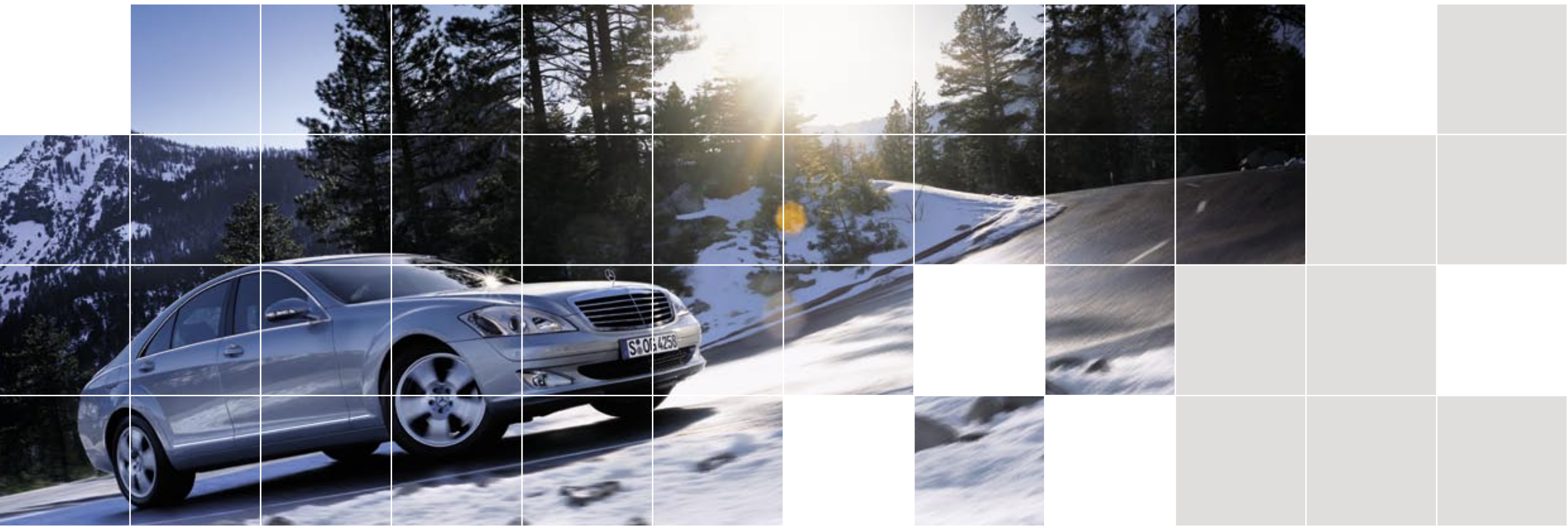
Property Division



Trading Division

Financial Services Division

Automobile Division



The Automobile division is a major retailer/distributor of premium automobile brands in Northeast Asia, with operations in Mainland China, Taiwan, Korea and Vietnam.

Mainland China

In Mainland China, the market for passenger cars continued to grow at a rate of 20% to 2,787,400 units reflecting the increasing spending power of the population. However, the number of imported vehicles declined by 8% to 163,000 as a result of the ongoing switch to local assembly/manufacturing of vehicles and the significant de-stocking of a number of imported vehicle brands.

In 2005, the Group continued its role as Regional Distributor for Mercedes-Benz passenger cars in North and East China. In addition, the Group has established dealerships. With the introduction of the Automobile Branded Distribution Policy by the Central Government, DaimlerChrysler has unified its three Regional Distributorships in Mainland China under a new General Distributor, Mercedes-Benz (China) Ltd. The Group holds a 49% equity stake in this new company. The new National Distribution arrangement will commence in 2006.

For the year under review, a significant growth of 62% in sales was achieved, reflecting the successful run out of the previous S-Class and the well-received launch of the new S-Class in October 2005. Sales growth was further supported by the introduction of the all-new CLS and M-Class in the first and third quarter of the year respectively, as well as ongoing growth in after-sales revenues as the vehicle parc in China continues to flourish.

The Group continued to expand our sales and after-sales network as part of an on-going strategy to create a strong dealer group. Our dealer group is well positioned to benefit both from the overall market growth and the more regulated market place resulting from the introduction of the Automobile Branded Distribution Policy. This policy is playing a significant role in progressively reducing grey imports and in limiting the role of trading companies in the distribution and retail of new cars, with the main impact of these expected to come through in 2006.

Looking forward, sales of the locally assembled E-Class launched in December 2005, commenced in January 2006, the all new R-Class will be launched in the second quarter of 2006 and the face-lifted E-Class is scheduled to be launched, along with the new GL model in the fourth quarter of 2006, further enhancing the Group's portfolio.

The change in our equity interest in the Regional Distributor to a 49% equity stake in the new General Distributor for the whole of Mainland China is expected to result in an initial decline in profits from distribution, with this partially offset by growth in our dealership business. In the long-term, this change is expected to be a positive move for the Group, consolidating its position in the promising Mainland market.

For 2006, our key strategies include: the transformation of our business into one of the Mercedes-Benz mega dealer group in the market; the reorganisation of our management structure for the passenger car business and the expansion of the number of dealerships.

We believe that the opportunities for growth in the Mainland automotive market are enormous. With its strong product line up and brand recognition, Mercedes-Benz will continue to be a major player in the luxury segment.

Taiwan

The Taiwanese market reported continued growth in 2005. Overall passenger car registrations increased by 6% to 464,146, with the imported segment up by 12% to 38,096 units.

For the year under review, our associate importer/distributor company, DaimlerChrysler Taiwan Limited ("DCT"), achieved 3.3% growth in unit sales with a total of 5,430 units sold.

Our 34.9% owned retail business, Capital Motors Inc. ("CMI"), increased sales volume by 5.3% to 2,946 units with growth across all DaimlerChrysler brands and Mercedes-Benz continuing to account for over 80% of the volume.

The grey market in Taiwan is still robust, fueled in part by the weaker Euro, and continues to account for over 40% of Mercedes-Benz sales in the country. This has had an adverse impact on both our distribution and retail businesses. This active grey market and the run-out programme for the previous S-Class had a negative effect on vehicle margins, which flowed through to lower profits.

CMI completed construction of a new flagship 3-S Autohaus in Taichung in late 2005 and this new facility was officially opened in January 2006. New upgraded showrooms in Taipei and Dunnan were opened in May 2005, while the showroom in Ming Sheng opened in September 2005. CMI currently operates 16 outlets in Taiwan and the company will continue its programme of upgrading its facilities in 2006.

In 2006, the distribution of Chrysler/Jeep brand products will be handled through a new company, "Chrysler Group Taiwan Sales Ltd", which is a 51% subsidiary of DCT. Distribution of the Mercedes-Benz and Smart brands will be handled by DCT, with CMI continuing to retail Mercedes-Benz, Chrysler/Jeep and Smart brands.

The outlook for 2006 is for slow growth in the overall passenger car market of between 1% to 2%. However, the market for imported passenger cars is expected to grow at nearer 8%. With an improved product line up and the benefit of new facilities, CMI is expecting to outperform this growth rate, with the major uncertainty being the impact of the grey market traders.

Korea

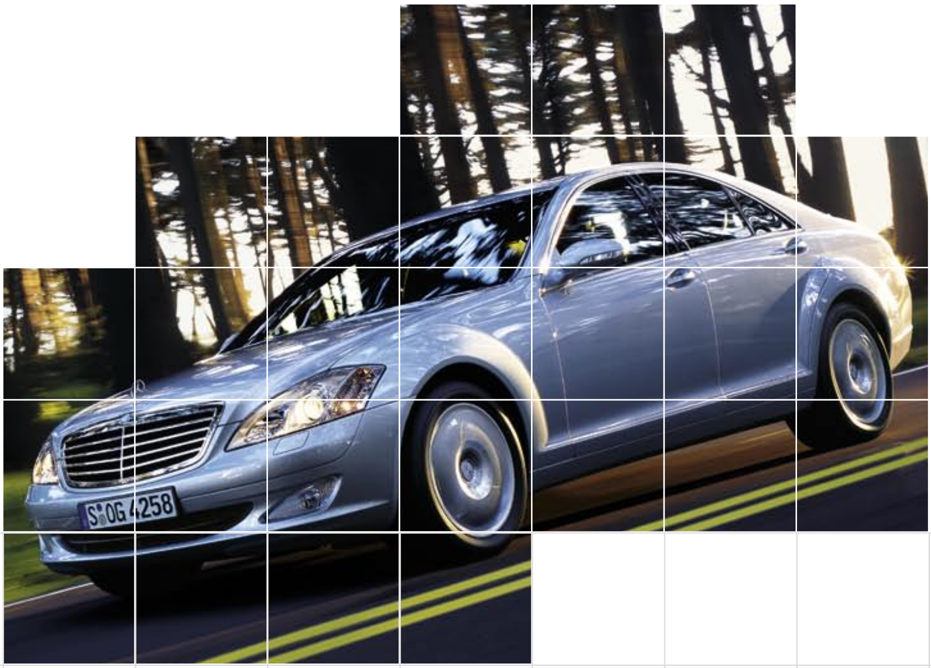
In Korea, market conditions were positive. The overall number of passenger car registrations increased marginally to 885,000, however the imported car registrations segment was up by 32% to 30,901.

For the year under review, our retail Mercedes-Benz businesses grew volumes by 41%, boosted by the launch of new models such as the E200, E350, CLS350 and the new S-Class in October 2005. Mercedes-Benz Korea Limited, the importer/distributor company in which we hold a 49% stake, grew unit sales by 40% and had a record year in profitability.

In 2005, our vertically integrated Porsche importer/distributor/dealer registered a 31% increase in unit sales in 2004.

After-sales income for the two brands increased by 38% reflecting the growth in vehicle parc, improved service retention rates and the contribution from the first full-year of operation from the Seongsu Workshop.

The outlook for 2006 is positive with Mercedes-Benz and Porsche projecting strong sales increases as the growth in imported vehicle registrations continues and both brands benefit from strong product ranges. For Mercedes-Benz, sales of the recently launched S-Class are expected to remain robust and the launch of the new M-Class, B-Class and the E220_Cdi Diesel are anticipated to help drive further sales growth. For Porsche, sales are anticipated to increase significantly with the recent launch of the Cayman, as well as benefit from the improved facilities and increased promotional activities undertaken in both 2005 and 2006. In addition, the Group has recently acquired a plot of land in Busan, Korea's second largest city, on which a new Porsche showroom/express services facility will be built in 2006. We will continue our strategy of upgrading our facilities with a new Mercedes-Benz Showroom and Express Service Centre is scheduled to open toward the end of 2007. In addition to upgrading facilities, we have an ongoing programme of upgrading our customer services to further enhance the premium image of our brands.



Vietnam

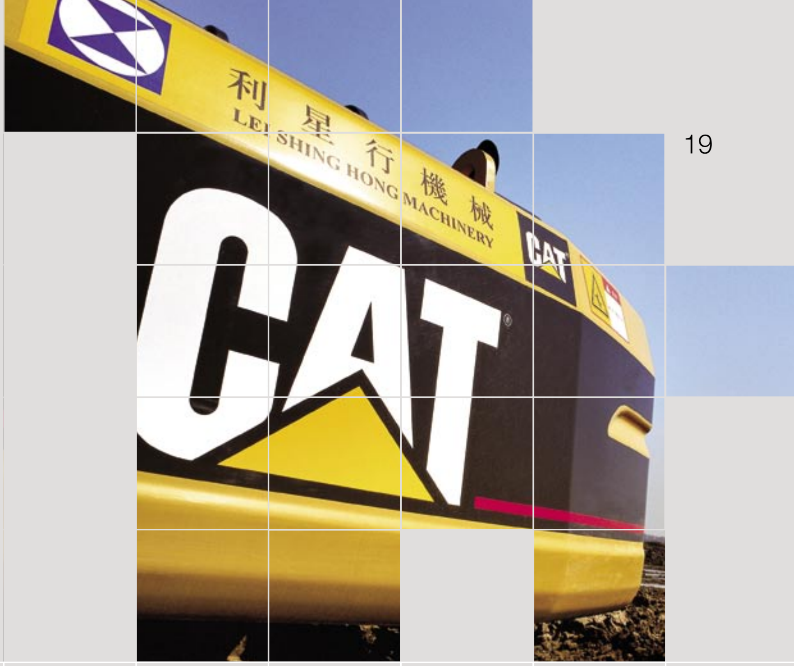
2005 was our first full year of operation as a Mercedes-Benz dealer in the Vietnam market. More than 300 vehicles were sold within the first year of operation, of which the majority were locally assembled light commercial vehicles. In addition, our service workshops reported a throughput of close to 1,400 vehicles.

In the course of the year we completed a 3-S Autohaus in Ho Chi Minh City, and a showroom in Hanoi. Construction work for a 3-S Autohaus in Hanoi was commenced.

The outlook for 2006 is positive and with these improved facilities we anticipate increasing our share of Mercedes-Benz sales in Vietnam, as well as achieving significant growth in service workshop throughput. In the longer term, given the strong economic growth and relatively low vehicle penetration, we see good prospects for this market.

Machinery Division

The Group's Machinery Division is one of the largest hydraulic excavator dealerships in the world, distributing a wide range of Caterpillar products, including earth-moving, road-building and mining equipment, as well as engines for power generation, marine, petroleum and industrial applications. The Division operates in Mainland China and Taiwan.



Mainland China

For the year under review, the Group reported an increase of 9% in total revenue as compared to 2004, with Machines up by 14%, Engines down by 5% and the product support business up strongly by 19%.

The overall hydraulic excavator market in Eastern China shrank by 20% to total 11,000 units in 2005, reflecting the cool down in infrastructure development that began in 2004. Despite this, volume growth of 8% was achieved while market share increased from 12% to 17% through improved sales coverage and the availability of customer financing through Caterpillar China Finance Limited. Average prices increased as the strong energy and commodity sectors greatly enhanced worldwide demand for heavy equipment.

In power systems, 878 engines were sold in 2005, representing a 10% reduction in unit volume as compared with 2004, mainly due to a decline in demand for stand-by generator sets. This was a natural reduction in demand after a very strong performance in 2004 and reflected the significant reduction in power outages in the country due to better management of the electricity supply. The decline in this segment was partially offset by growth in sales to the industrial and petroleum segments.

Our product support business had a good year in 2005 with both parts and labour sales showing strong growth. This growth was a result of an increase in the number of machines in operation, enhanced staff and branch capability, improved customer coverage and a more competitive merchandising programme for Caterpillar parts. More than 600 customer service agreements for hydraulic excavator customers were concluded for the year under review.

Further progress was achieved in 2005 towards our mission of being a world-class solutions provider. Critical success factors towards this mission include the provision of total product support to our customers and this was progressed through the addition of two new branches in Linyi and Jilin in Shandong province and the expansion of our main Kunshan workshop facility. We now have a total of 19 branches covering Shanghai and the 6 provinces in Eastern China. Other strategic developments included the establishment of a machine and engine rental business and a used equipment sales organisation. Construction commenced on our Yangzhou used equipment rebuild centre and this is due to be completed in 2006. The distribution rights were secured for the domestic-built SEM wheel loaders in both Jiangsu province and Shanghai as well as the large Terex/O&K hydraulic mining shovel range. Our engine business also expanded into the large gas compression products, in line with the emerging availability of natural gas in the area. These products will compliment our existing product range and enhance our position as a solutions provider while providing revenue and profit growth for the future.

Looking forward, the outlook remains generally positive. The Central Government continues to implement its macro-economic measures to control economic growth and no significant spikes in the market are expected. In addition to maximising new machine and engine sales, we will continue to concentrate on further enhancements to our organisation, utilising 6 Sigma methodology, with particular emphasis on our product/ customer support facilities, capabilities and personnel development.

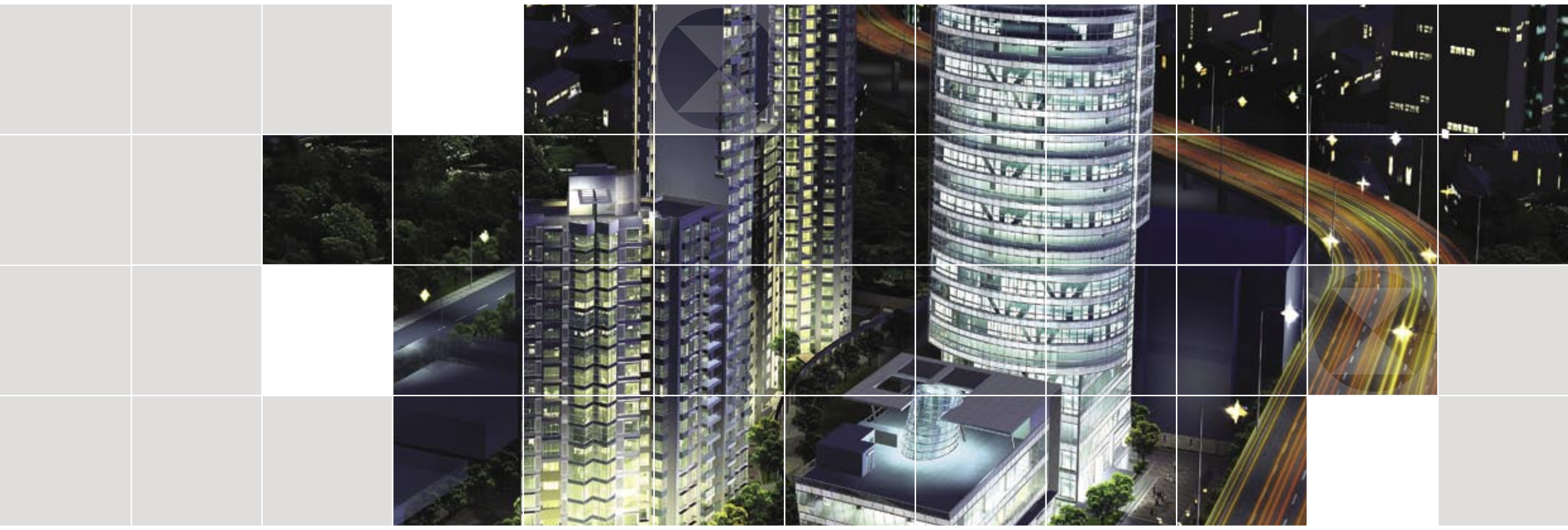
Taiwan

In Taiwan, the Group's total revenue increased by 46% over 2004 with strong growth in all product groups as well as in product/customer support. The Machinery market grew 27% in unit terms with unit sales up 54% as market share was improved from 15% to 18%. This increased market share and sales growth across the business demonstrate the benefits of the strategic review carried out shortly after acquisition in 2004. Key actions implemented include the improved targeting of customers through use of market intelligence, fully engaging with customers to offer competitive solutions, offering superior after sales support and an ongoing programme of upgrading facilities and ensuring appropriate market coverage.

The major milestones of 2005 include the completion of an extensive renovation project at the Tainan branch and the opening of a new contact office in Hsinchu to improve sales and service responsiveness to the many engine customers in the Science Parks along the west coast. In addition, the product line was expanded with the successful launch of the Skid-Steer Loader. A further expansion of the product line up is planned for 2006.

In 2006, the market is expected to continue to grow albeit at a slower rate than in the past two years. Further improvements in market share are targeted, however the rapid growth in world-wide demand for Caterpillar products has led to product shortages, extended delivery times and further price increases and this represents a potential risk to the achievement of our market share targets.

Property Division



The Property Division is engaged in the development of quality properties in major cities such as Beijing and Shanghai in China. Currently, the Group's major projects include "Starcrest" and "LSH Plaza" in Wangjing New City, Chaoyang District, Beijing and "Lei Shing International Plaza" on Yan An Xi Road in Shanghai. In addition to properties managed within the Property Division, a number of the Group's other Divisions also has property interests. Of particular note is the Automobile Division which holds both owner-occupied and investment properties in China and Korea.

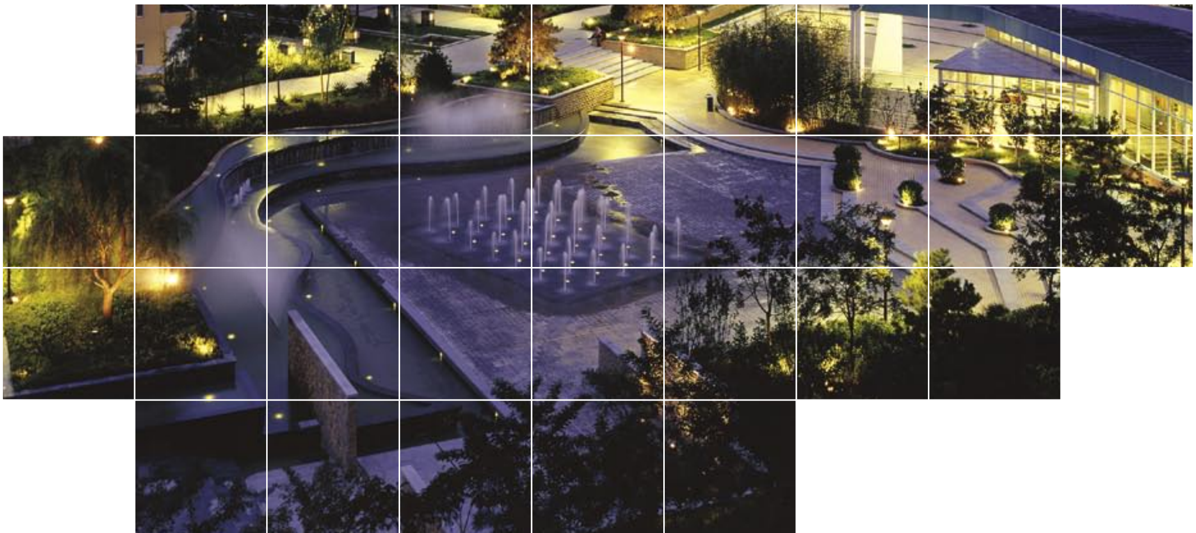
Mainland China

Sales of HK$473 million were achieved in 2005, a significant increase over the HK$129 million recorded in 2004. This growth was generated by the sale of 806 car park spaces at the Starcrest project in Beijing and the sale of the commercial and retail towers at Lei Shing International Plaza in Shanghai. These sales were the major driver of a significant profit in 2005 for the Group.

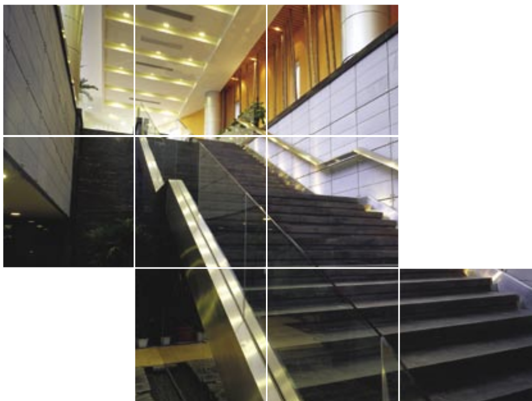
Beijing: Sales of Starcrest Phase 1 were recognised in 2004, with sales of the car park units recognised in 2005. Pre-sales of Starcrest Phase 2 have progressed well with sales and purchase agreements signed for 58% of the units and a significant portion of the cash received. Completion and recognition of sales for this phase is scheduled for 2006. Phase 3 plans have been drawn up for the construction of approximately 119,992sq. m., made up of residential gross floor area of 68,850sq. m. and retail space of 12,000sq. m. plus parking and basement. Commencement of construction is expected in mid-2006, subject to planning approval from the local authorities. The relocation phase for LSH Plaza in Beijing has been completed and application for the construction permit is in process for the development of three commercial towers with an estimated gross floor area of 159,000sq. m. on 32,000sq. m. of land in the Wangjing New City, Chaoyang District of Beijing.

Shanghai: Lei Shing International Plaza is now substantially complete. Sales of the commercial and retail towers were recognised in 2005. Pre-sales of the residential sales have been excellent with 95% of the units sold and customer deposits of RMB600 million collected. Sales will be recognised in 2006 with the formal hand-over of these units to the purchasers. Negotiations with the local authority continue with respect to our land at Cheng Du Road.

Both the Beijing and Shanghai markets have been impacted in 2005 by measures introduced by the Central Government to curb speculation in the property market. Pre-sales of the residential units of Lei Shing International Plaza in Shanghai were largely completed prior to the introduction of these measures and although there have been some cancellations of Letters of Intent, pre-sales of Starcrest Phase 2 have been in line with expectations. The Central Government's measures to stabilise property prices and deter speculation seem to be paying off and we regard these measures as being positive for the overall health of the property market. Land in prime urban and suburban areas of the main cities remains in tight supply and continues to be keenly contested by property developers driven by the influx of population and demand for higher housing standards. We therefore believe, along with many other industry insiders and analysts, that the real estate industry will remain a key engine in the economic growth of Mainland China.

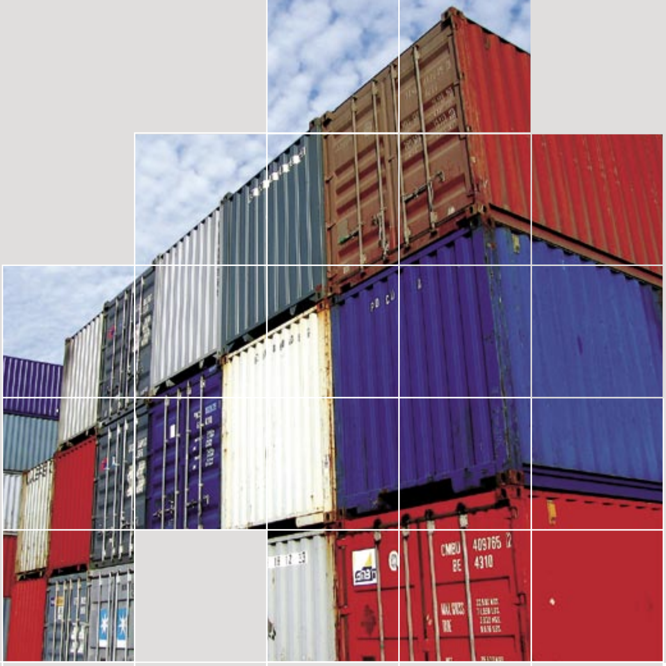


The outlook for 2006 is for increased sales with the recognition of Starcrest Phase 2 and Lei Shing International Plaza residential sales. However, as these are lower margin individual sales rather than the en-bloc sales recognised in 2005, the profits to be generated from the 2006 sales are anticipated to be lower. In the longer term, the demand for higher standards of both residential and commercial property is expected to remain strong in line with the country's economic growth. The Group will continue with its strategy of developing quality property projects in Mainland China's leading cities as well as developing a property management and leasing business.



Trading Division

The Group's Trading Division specialises in wood-based products, watch components and fertiliser trading and has operations based in Hong Kong and Singapore. Wood-based products are imported from Malaysia and Papua New Guinea and exported to Mainland China. Watch components are traded within Hong Kong and fertilisers and chemicals are imported from Mainland China and Canada with sales mainly into Malaysia. In addition to this external business, the Trading Division also handles the importing of cars from Germany into China on behalf of the Group's Regional Distribution automobile business in Mainland China.



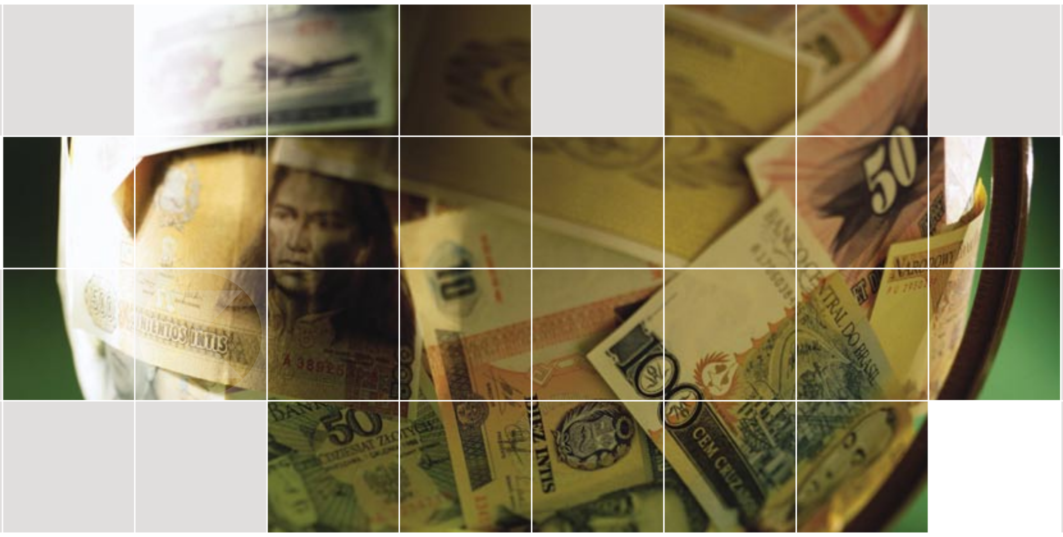
In 2005, external sales were up 19% due to additional wood-based product sales to a major new customer. The wood products market in Mainland China, although very active in the first half of 2005, remained extremely competitive during the year, with margins impacted by escalating fuel prices and ocean freight rates reaching unprecedented highs.

Watch component sales improved by 13% reflecting improved consumer spending in Hong Kong and increased tourist arrivals helped in part by the opening of Hong Kong Disneyland.

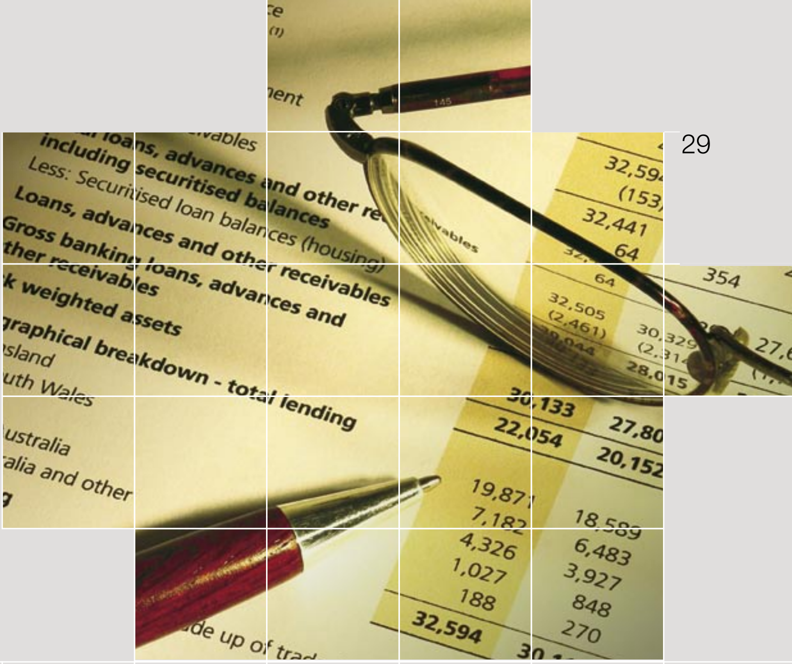
Fertiliser and chemical sales declined year on year by 21% with sales adversely impacted by the prolonged period of drought in the first quarter of 2005 and the acute shortage of plantation labourers in Malaysia. Most fertiliser importers were caught with excessive inventories, leading to a substantial drop in orders in the second half of the year, as inventories were reduced.

2006 is expected to show a decline in total sales with the end of the internal automobile sales following the restructuring of distribution in China with Mercedes-Benz (China) Limited taking on the importer/distributor role as explained in the Automobile section above. Sales of wood-based products are depressed due to the continuing weakness in prices for wood-based finished products and the present surplus of both round log and finished product inventories in China. As a result, timber importers are unwilling to place new orders and the situation is not likely to improve until the second quarter of 2006. The demand for fertiliser is also likely to remain weak well into the first half of 2006. We are exploring new product lines and sales to new markets in order to offset this and a new Trading company is also being established in Shanghai, which is expected to commence operations in 2006.

Financial Services Division



The Group's Financial Services Division is engaged in portfolio management, share trading and services, foreign exchange trading, securities brokerage and margin and term loan financing.



Our proprietary foreign exchange trading business had a disappointing year. In view of the non-core nature of this activity, the operation has been significantly scaled down.

Profits in our proprietary equity trading business were significantly down on what was a very strong performance in 2004. Lower daily trading volumes for the Hong Kong stock market in the first half year plus a loss of market share, with low cost trading being marketed by a number of the major players, led to a decrease in turnover for our securities brokerage business during the year. For term loan financing, a lower average loan portfolio due to the repayment of loans resulted in lower interest income, which was in part offset by higher interest rates and new loans granted in the later part of the year.

The main Asian equity markets have started the year positively and an improved performance is expected for 2006.

HIGH GROWTH MARKETS