



LEI SHING HONG LIMITED

利星行有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 238)

ANNOUNCEMENT OF INTERIM RESULTS 2006

INTERIM RESULTS

The Board of Directors (the “Board”) of Lei Shing Hong Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 together with the comparative figures as follows. These condensed consolidated interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

Condensed Consolidated Income Statement

For the six months ended 30 June 2006

		For the six months ended 30 June	
		2006	2005
		(Unaudited)	(Restated)
	Notes	HK\$'000	HK\$'000
REVENUE	4	8,907,134	6,493,191
Cost of sales and services		<u>(7,899,006)</u>	<u>(5,785,166)</u>
Gross profit		1,008,128	708,025
Other income and gains		90,013	32,447
Selling and distribution costs		(151,362)	(75,354)
Administrative expenses		(379,449)	(277,808)
Other operating expenses		<u>(126,504)</u>	<u>(171,002)</u>
PROFIT FROM OPERATING ACTIVITIES		440,826	216,308
Finance costs	5	(95,243)	(70,166)
Share of profits and losses of associates		<u>(4,176)</u>	<u>20,682</u>
PROFIT BEFORE TAX	6	341,407	166,824
Tax	7	<u>(135,951)</u>	<u>(43,527)</u>
PROFIT FOR THE PERIOD		<u><u>205,456</u></u>	<u><u>123,297</u></u>

ATTRIBUTABLE TO:

Equity holders of the parent		169,916	111,779
Minority interests		35,540	11,518
		205,456	123,297

EARNINGS PER SHARE ATTRIBUTABLE TO
ORDINARY EQUITY HOLDERS OF THE PARENT

– Basic	8	16.0 cents	10.6 cents
– Diluted	8	16.0 cents	10.5 cents

DIVIDEND PER SHARE	9	Nil	Nil
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Condensed Consolidated Balance Sheet

30 June 2006

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Restated) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		1,527,819	1,382,268
Investment properties		551,959	427,111
Prepaid land premiums		250,142	235,761
Properties under development		1,007,809	809,680
Goodwill		701,426	676,466
Other intangible asset		1,650	1,650
Interests in associates		1,876,436	1,725,853
Available-for-sale investments		9,679	11,689
Deferred tax assets		21,759	21,119
Net investments in finance leases		29,065	37,888
Loans and receivables		88,204	98,380
Total non-current assets		6,065,948	5,427,865
CURRENT ASSETS			
Inventories		1,636,760	2,213,970
Properties held for sale		736,789	1,217,145
Trade receivables	10	515,991	702,403
Bills receivable with full recourse		27,260	183,857
Net investments in finance leases		52,530	82,864
Loans and receivables		265,213	336,383
Prepaid land premiums		3,354	5,127
Prepayments, deposits and sundry receivables		685,901	824,071
Equity investments at fair value through profit or loss		218,907	126,370
Pledged time deposits		36,989	23,883
Cash held on behalf of securities clients		6,379	3,912
Cash and cash equivalents		1,589,531	1,300,393
Total current assets		5,775,604	7,020,378

CURRENT LIABILITIES			
Trade and bills payables	11	966,206	1,266,321
Sundry payables and accruals		1,733,435	1,860,809
Interest-bearing bank borrowings		1,868,380	2,043,138
Bills discounted with full recourse		27,260	183,857
Tax payable		171,785	224,639
Provisions		57,496	45,411
		<hr/>	<hr/>
Total current liabilities		4,824,562	5,624,175
		<hr/>	<hr/>
NET CURRENT ASSETS		951,042	1,396,203
		<hr/>	<hr/>
TOTAL ASSETS LESS CURRENT LIABILITIES		7,016,990	6,824,068
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		959,207	978,445
Deferred tax liabilities		189,770	196,657
		<hr/>	<hr/>
Total non-current liabilities		1,148,977	1,175,102
		<hr/>	<hr/>
Net assets		5,868,013	5,648,966
		<hr/>	<hr/>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		1,060,588	1,060,520
Reserves		4,490,255	4,239,110
Proposed final dividend		–	31,816
		<hr/>	<hr/>
		5,550,843	5,331,446
		<hr/>	<hr/>
Minority interests		317,170	317,520
		<hr/>	<hr/>
Total equity		5,868,013	5,648,966
		<hr/>	<hr/>

Notes:

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”. The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2005, except in relation to the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations) and the Hong Kong Companies (Amendment) Ordinance 2005 (the “Amendment Ordinance”) that are applicable to the Group and are adopted for the first time for the current period’s condensed consolidated interim financial statements:

HKASs:

HKAS 21 Amendment

HKAS 27

HKAS 39 Amendment

HKAS 39 & HKFRS 4 Amendments

HK(IFRIC)-Int 4

Net Investment in a Foreign Operation

Consolidated and Separate Financial Statements

The Fair Value Option

Financial Guarantee Contracts

Determining whether an Arrangement contains a Lease

The adoption of HKAS 21 Amendment, HKAS 39 Amendment, HKAS 39 & HKFRS 4 Amendments and HK(IFRIC)-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated interim financial statements.

The impact of adopting the other revised HKFRSs and the Amendment Ordinance is summarised as follows:

HKAS 27 – Consolidated and Separate Financial Statements and Amendment Ordinance

In prior periods, the Group has equity investments in the People's Republic of China ("PRC") companies that are controlled by the Group, where control is the power to govern the financial and operating policies of the PRC companies so as to obtain benefits from the PRC companies' activities, where HKAS 27 defines the PRC companies as subsidiaries. However, entities can only be regarded as the Group's subsidiaries when they meet the definition of subsidiaries under the then Companies Ordinance which defined an entity to be a subsidiary of another company if that other company controls more than half of an entity's voting power, controls the board of directors of an entity or holds more than half of an entity's issued share capital. The Group's equity investments in the PRC companies have therefore been recorded as available-for-sale investments, which were stated at cost less any impairment losses, in prior periods.

Upon the adoption of the Amendment Ordinance, the PRC companies meet the definition of subsidiaries under both HKAS 27 and the Amendment Ordinance and consolidation of the PRC companies is required. The Group is required to consolidate the PRC companies retrospectively to the earliest prior period presented which were previously recorded as available-for-sale investments.

The effects of this change are summarised in note 3 to the condensed consolidated interim financial statements. The comparative amounts in the condensed consolidated balance sheet as at 31 December 2005 have been restated.

2. Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, herein collectively referred to as the new HKFRSs, that have been issued but are not yet effective, in these condensed consolidated interim financial statements. These new HKFRSs are effective for annual periods beginning on or after 1 January 2007:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures

The HKAS 1 Amendment will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments and to revise and enhance the disclosure requirements in HKAS 30 "Disclosures in the Financial Statements of Banks and Similar Financial Institutions".

3. Summary of the Impact of Changes in Accounting Policies and Basis of Preparation

(a) Effect on the condensed consolidated balance sheet

Effect of new policies and basis (Increase/(decrease))	Effect of adopting
	HKAS 27 [#] Consolidated and Separate Financial Statements and Amendment Ordinance [#] HK\$'000
<u>At 1 January 2006</u>	
<u>Assets</u>	
Property, plant and equipment	82,104
Investment properties	(35,830)
Properties under development	146,952
Interests in associates	1,747
Available-for-sale investments	(248,826)
Inventories	1,130,533
Trade receivables	(1,104,948)
Loans and receivables	(85,511)
Prepayments, deposits and sundry receivables	59,646
Cash and cash equivalents	350,295
	<u>296,162</u>
<u>Liabilities/equity</u>	
Trade and bills payables	(197,240)
Sundry payables and accruals	248,753
Interest-bearing bank borrowings	136,575
Tax payable	21,087
Reserve funds	562
Exchange fluctuation reserve	3,764
Retained profits	30,430
Minority interests	52,231
	<u>296,162</u>

[#] Adjustments effect taken retrospectively

	Effect of adopting HKAS 27 Consolidated and Separate Financial Statements and Amendment Ordinance HK\$'000
Effect of new policies and basis (Increase/(decrease))	

At 30 June 2006

Assets

Property, plant and equipment	135,465
Investment properties	(35,830)
Properties under development	204,156
Goodwill	965
Interests in associates	(352)
Available-for-sale investments	(336,576)
Inventories	844,098
Trade receivables	(156,472)
Loans and receivables	(133,054)
Prepayments, deposits and sundry receivables	39,859
Cash and cash equivalents	617,963

1,180,222

Liabilities/equity

Trade and bills payables	729,676
Sundry payables and accruals	139,900
Interest-bearing bank borrowings	58,272
Tax payable	18,252
Reserve funds	556
Exchange fluctuation reserve	8,321
Retained profits	128,066
Minority interests	97,179

1,180,222

(b) *Effect on the balance of equity*

	Effect of adopting HKAS 27 Consolidated and Separate Financial Statements and Amendment Ordinance HK\$'000
Effect of new policies and basis (Increase/(decrease))	

At 1 January 2005

Reserve funds	(172)
Exchange fluctuation reserve	(409)
Retained profits	(1,694)
Minority interests	33,758

31,483

At 1 January 2006

Reserve funds	562
Exchange fluctuation reserve	3,764
Retained profits	30,430
Minority interests	52,231
	<hr/>
	86,987
	<hr/> <hr/>

(c) *Effect on the condensed consolidated income statement*

	Effect of adopting
	<hr/> HKAS 27
Effect of new policies and basis	Consolidated and Separate
	Financial Statements
	and Amendment Ordinance
	HK\$'000
<u>For the six months ended 30 June 2005</u>	
Increase in revenue	593,389
Increase in cost of sales and services	(478,630)
Decrease in other income and gains	(23,409)
Increase in selling and distribution costs	(14,470)
Increase in administrative expenses	(24,094)
Increase in other operating expenses	(14,887)
Increase in finance costs	(354)
Decrease in share of profits and losses of associates	(812)
Increase in tax	(15,769)
	<hr/>
Total increase in profit	20,964
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Increase in basic earnings per share (HK cents)	1.99
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Increase in diluted earnings per share (HK cents)	1.97
	<hr/> <hr/>
	Effect of adopting
	<hr/> HKAS 27
Effect of new policies and basis	Consolidated and Separate
	Financial Statements
	and Amendment Ordinance
	HK\$'000
<u>For the six months ended 30 June 2006</u>	
Increase in revenue	4,404,243
Increase in cost of sales and services	(4,025,402)
Decrease in other income and gains	(64,944)
Increase in selling and distribution costs	(45,393)
Increase in administrative expenses	(68,080)
Increase in other operating expenses	(32,339)
Increase in finance costs	(2,651)
Increase in share of profits and losses of associates	459
Increase in tax	(42,005)
	<hr/>
Total increase in profit	123,888
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Increase in basic earnings per share (HK cents)	11.68
	<hr/> <hr/>
Increase in diluted earnings per share (HK cents)	11.68
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4. Segment Information

An analysis of the Group's revenue and results by principal activities is as follows:

	Revenue for the six months ended 30 June		Results for the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Restated) HK\$'000	2006 (Unaudited) HK\$'000	2005 (Restated) HK\$'000
Trading of motor vehicles and spare parts and provision of after-sales services	6,217,946	4,264,762	336,390	119,288
Trading of heavy equipment and provision of product support services	1,490,857	1,242,362	56,577	55,436
Property development and investment	569,705	139,843	50,632	63,335
General trading	661,791	1,496,742	18,366	28,556
Securities broking and trading	31,525	1,895	(6,839)	(17,563)
Trading of foreign exchange	–	27,279	–	(34,925)
Money lending	6,594	4,788	749	2,021
Others	2,588	2,671	(4,653)	15,807
	<u>8,981,006</u>	<u>7,180,342</u>	<u>451,222</u>	<u>231,955</u>
Intersegment eliminations	(73,872)	(687,151)	(10,396)	(15,647)
	<u>8,907,134</u>	<u>6,493,191</u>	<u>440,826</u>	<u>216,308</u>

An analysis of the Group's revenue by geographical area of operations is as follows:

	Revenue for the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Restated) HK\$'000
People's Republic of China:		
Hong Kong	409,531	465,586
Mainland China	6,429,470	4,557,147
Other Asian regions	2,068,133	1,470,458
	<u>8,907,134</u>	<u>6,493,191</u>

5. Finance Costs

	For the six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Restated) HK\$'000
Interest on borrowings wholly repayable within five years:		
Bank loans	58,433	51,371
Trust receipt loans	33,649	16,940
Bank overdrafts	3,161	1,855
	<u>95,243</u>	<u>70,166</u>
Total interest	<u>95,243</u>	<u>70,166</u>

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	62,138	43,403
Depreciation of investment properties	2,920	601
Recognition of prepaid land premiums	3,187	1,837
Goodwill released upon sales of developed properties*	12,804	1,677
Provision for bad and doubtful debts	14,199	8,221
Write-down of inventories to net realisable value	571	2,245
Fair value losses on equity investments at fair value through profit or loss, net	11,957	13,997
Dividend income from listed investments	(8,581)	(4,627)
Gross rental income	(17,123)	(16,943)
Interest income	(28,856)	(33,388)
Net losses/(gains) on dealing in listed investments	<u>(15,968)</u>	<u>7,850</u>

* *Goodwill arising on acquisitions of subsidiaries whose principal activity is property development is released by reference to the sales of the related developed properties. The amount was included in "Other operating expenses" on the face of the condensed consolidated income statement.*

7. Tax

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. 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.

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Current:		
Hong Kong	3,803	11,950
Elsewhere	139,675	32,921
Deferred	<u>(7,527)</u>	<u>(1,344)</u>
Total tax charge for the period	<u>135,951</u>	<u>43,527</u>

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

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Profit before tax	<u>341,407</u>	<u>166,824</u>
Tax charge at Hong Kong statutory tax rate	59,746	29,194
Tax effect arising from higher tax rates of overseas subsidiaries and associates, ranging from 15% to 33%	50,661	13,451
Tax effect of non taxable income	(3,299)	(14,175)
Tax effect of non deductible expenses	2,030	3,901
Utilisation of tax losses	(6,381)	(11,984)
Tax losses not recognised	8,377	13,919
Tax effect of profits and losses attributable to associates	731	(3,619)
Tax adjustments of other timing differences	<u>24,086</u>	<u>12,840</u>
Tax charge at the Group's effective rate	<u>135,951</u>	<u>43,527</u>

The share of tax attributable to associates amounting to HK\$17,502,000 (2005: HK\$8,245,000) is included in "Share of profits and losses of associates" on the face of the condensed consolidated income statement.

8. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculations of basic and diluted earnings per share for the six months ended 30 June 2006 and 2005 are based on:

	For the six months ended 30 June	
	2006	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Earnings		
Net profit attributable to ordinary equity holders of the parent for the period, used in the basic and diluted earnings per share calculations	<u>169,916</u>	<u>111,779</u>
Shares		
	Number of shares	
	2006	2005
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares in issue during the period used in basic earnings per share calculation	1,060,528,906	1,054,685,520
Effect of dilution – Weighted average number of ordinary shares:		
Warrants	<u>–</u>	<u>7,916,496</u>
	<u>1,060,528,906</u>	<u>1,062,602,016</u>

As the subscription prices of the share options outstanding during the six months ended 30 June 2006 and 2005 were higher than the respective average market prices of the Company's shares during these periods, there was no dilution effect on the basic earnings per share.

In accordance with the terms and conditions of the instrument constituting the warrants dated 25 May 2001, the subscription rights attaching to the warrants expired on 19 June 2006.

9. Dividend

At a meeting of the board of directors held on 21 September 2006, the directors resolved not to pay an interim dividend to shareholders for the six months ended 30 June 2006 (2005: Nil).

10. 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non interest-bearing.

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

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Restated) HK\$'000
Current	390,241	505,695
0 – 3 months	121,906	191,232
4 – 6 months	2,008	3,767
7 – 12 months	1,409	1,628
Over 1 year	427	81
	<u>515,991</u>	<u>702,403</u>

11. 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:

	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Restated) HK\$'000
Current	714,376	1,167,379
0 – 3 months	201,632	69,777
4 – 6 months	50,198	29,165
	<u>966,206</u>	<u>1,266,321</u>

The trade payables are non interest-bearing and are normally settled within 60-day terms.

12. Comparative Amounts

As further explained in notes 1 and 3 to the condensed consolidated interim financial statements, due to the adoption of new and revised HKFRSs and the Amendment Ordinance during the current period, the accounting treatment and presentation of certain items and balances in the condensed consolidated interim financial statements have been revised to comply with the new requirements. Accordingly, prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current period's presentation and accounting treatment.

OPERATIONS REVIEW

For the period under review, Lei Shing Hong Limited ("LSH" or the "Group") is pleased to report continued growth. For the six months ended 30 June 2006, our turnover reached HK\$8,907 million, representing an increase of 37% over the same period last year. Unaudited profit attributable to shareholders increased by 52% to HK\$170 million for the six months ended 30 June 2006, while earnings per share were 16 HK cents. This growth was fuelled by performances from a turnaround in our Financial Services Division and an improved performance in our Automobile Division, which benefited from strong growth in both the China and Korean markets.

Automobile Division

For the period under review, our Automobile Division delivered an exceptionally strong performance with an increase of 46% in turnover.

Mainland China

We have made solid progress in our strategy of developing the Group's sales and after-sales network in the Northern and Eastern regions of Mainland China. By the end of 2006, we expect to have an extensive network coverage of 24 cities.

During the period under review, we successfully completed the transfer of our distribution activities for North and East China from our subsidiary companies to Mercedes-Benz China Limited, a company in which we hold a 49% equity stake and which operates as the national distributor for the Mercedes-Benz brand. In addition, we have established a new company, Lei Shing Hong Management (Shanghai) Co Ltd, which will provide dealer management support to our existing Dealers as well as lead our network development.

Our unit sales in Mainland China increased by 48% over the same period of last year. This upward trend was driven by a number of factors, including: consumers purchasing vehicles in the first quarter ahead of the anticipated consumption tax increases; robust sales of the new S-Class; the successful introduction of the CKD E-Class E280; and on-going strong sales of the M-Class. Whilst we anticipate that this growth rate will slow down in the second half of 2006, we believe that tremendous long-term opportunities are presented by the Automobile industry in Mainland China. Meanwhile, turnover from after-sales operations increased by 42% over the corresponding period last year.

With regards to our Commercial Vehicles business, we have now established two dedicated dealerships in Xinjiang and Sichuan.

Taiwan

DaimlerChrysler Taiwan Limited ("DCT"), our associate company which focuses entirely on the sale of Mercedes-Benz and Smart brands since January 2006, achieved significant sales volume growth of 20%. This was mainly due to a sharp increase in sales of the S-Class and strong growth for the M-Class. In terms of sales value, even greater growth was achieved. A key factor behind DCT's impressive sales growth was the significant decline in grey market sales, down by nearly 30% partly due to the improved availability of key models through official dealers and also exchange rate movements which impacted the relative price competitiveness of the grey market supply.

Our retail business, Capital Motors Inc (“CMI”), increased new car volumes by 15%. Unit sales of the Mercedes-Benz brand increased by 27%, offsetting reductions in the sales of Chrysler and Smart vehicles. The marked gain in the sales of Mercedes-Benz reflects: a significant increase in S-Class sales; the successful introduction of the B-Class; and sales growth for the M-Class. In terms of value, our sales showed an even better improvement over last year, resulting from the richer model mix.

CMI is continuing with its programme of upgrading facilities and the new flagship Taichung facility was opened in January 2006. Projects currently in progress include the renovation and upgrade of the Taoyuan branch in North Taiwan and the development of a new 3-S “Autohaus” in Kaohsiung, scheduled to be completed at the end of 2007.

The outlook for the Taiwan market in the second half is mixed. The overall market, including the imported premium segment, is expected to remain soft. However, we have a strong product line-up under the Mercedes-Benz brand and with the expected introduction of the CDI-diesel engine models and the face lifted E-Class, we expect to make gains in market share.

Korea

The Korean imported car market grew from 12,930 units to 20,193 units, representing an increase of 56% over the corresponding period last year. Mercedes-Benz achieved a 13% share of this imported vehicle market with the Group’s subsidiaries, Han Sung Motors Co Ltd (“Han Sung”) and Busan Star Motor Co Ltd (“Busan Star”), contributing to 54% of the overall Mercedes-Benz registrations.

Han Sung, which operates 7 dealerships together with its subsidiary Busan Star, achieved unit sales growth of 33% and overall sales growth of 61% as compared with the corresponding period last year. This increase reflects the strong sales of the new S-Class and a good performance from models such as the E350 and CLS350. New models introduced include the R and B-Class.

Outlets under development include the re-location of the Incheon showroom and quick service centre scheduled for October 2006, and Seocho and Busan which will be completed in 2007.

Stuttgart Sports Car Limited, our Porsche importer/distributor/dealer, achieved unit sales growth of 26% with the Cayman model successfully launched and strong sales of the Cayenne and 911 models. Long-term, we see excellent growth prospects for the Porsche franchise in Korea and we are taking steps to expand our sales and service coverage. Land has been acquired for a new Porsche dealership in Busan and the construction of the facility is expected to be completed by September 2007. A second sales outlet at the Seoul Automobile Gallery in the Yangjae area of Seoul has been secured and is scheduled to commence sales of new and previously-owned cars in September 2006.

Vietnam

Further progress was achieved in the Vietnamese market with unit sales growing by 31%. We currently have an Autohaus in Ho Chi Minh City and an Autohaus in Hanoi is scheduled to be completed later this year.

Machinery Division

Mainland China

Lei Shing Hong Machinery has achieved 17% growth relative to the first half 2005, inclusive of new and used machine, engine, rental, parts and service sales. Machine sales increased by 19% and engine sales by 8% over the previous period. Marine engine sales surged by 148% with high demand from the domestic dredging industry for the larger 3600 series Cat engines. In excess of 80% of the machine sales were financed by Caterpillar Financial Services, while parts and service sales continued to benefit from the increasing machine and engine populations with 14% and 12% respective sales increases.

We continued our emphasis on customer service. Two new branches were opened – Yantai in Shandong province and Shiyang in Hubei, as well as the Used Equipment Centre in Yangzhou, during the first half of this year. Plans have also been finalised for the new Provincial Support Centre in Nanjing, while land acquisition is in progress for similar support centres in the main provincial cities of Hangzhou, Zhengzhou, Jinan and Wuhan.

Prospects remain bright for the remainder of 2006. We will commence sales and support operations for the recently awarded, Caterpillar-owned, Perkins line of engine products and we expect particularly strong growth in our marine and oilfield engine order books.

We will continue our emphasis on process improvement through the 6 Sigma process and will complete our alignment with Caterpillar for their extended enterprise “Cat Vision 2020”.

Taiwan

Capital Machinery Ltd, our Machinery business in Taiwan, grew revenues by 41% as compared to the same period for 2005. Growth was achieved in both our Machines and Power Systems product line and significant market share gains were achieved. The upgrade and expansion of our facilities continues with specific projects currently in progress at Tayuan, Taichung, Hualien and Kaohsiung.

The outlook for the second half of 2006 remains good: we have a healthy order book and there is increasing recognition for the Caterpillar brand and our capabilities to support our quality product range.

Property Division

Mainland China

The property market in Mainland China is starting to show signs of slowing down as a result of Central Government’s measures. Despite this, the long-term outlook for the property sector in Mainland China’s major cities remains robust and sound.

Following the sale of the commercial and retail towers of Lei Shing International Plaza in December 2005, sales of 97% of the residential units in this development were recognized in the first half of 2006, boosting the performance of our Property Division during the period under review. A number of the remaining units will be kept for our own use and sales of the balance of the units are expected to be recognized in the second half of 2006.

Excellent sales progress has been achieved for the Phase II residential units at “Starcrest”. Sales and purchase agreements have been signed and registered for 1,133 units, accounting for 92% of the total. Phase II is anticipated to be completed in 2006. We have also obtained the planning certificate for Phase III, which encompasses 341 residential units as well as retail and car park space with a total GFA of 119,992m². The construction permit has also been received and we target commencing the construction work in the second half of 2006. Progress has also been made with respect to the commercial portion of this project, for which we anticipate obtaining a construction permit in the 4th quarter of this year.

Good progress was achieved in a major commercial development in Beijing. The land use rights certificate and planning approval have been obtained; relocation has been completed; and the foundation works are now in progress.

The Group sees excellent long-term growth potential in Mainland China’s property sector. We are now actively pursuing opportunities to grow our land bank to ensure we have a strong portfolio of suitable sites for future property developments.

Trading Division

The first half performance was adversely impacted by a number of market factors and external sales were down 27% as compared with the first half of 2005.

Wood-based products decreased by 31%, in part due to supply side issues and no dramatic improvement is expected in the second half.

Watch component sales were also weak, reflecting fierce competition and declining unit prices.

Demand for fertilizers was soft with most fertilizer importers carrying high inventories into 2006. The demand for fertilizers is expected to remain weak well into the second half of 2006 while the inventory levels are being brought back into balance.

Progress with new product lines and sales to new markets has been slower than anticipated. A new trading company has now been established in Shanghai and is expected to commence operations towards the end of 2006.

Financial Services Division

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

The performance of our securities brokerage business benefited from increased trading volumes in the Hong Kong market and a larger number of IPOs.

Our proprietary share trading business benefited from improved market conditions, particularly in the Hong Kong market where the majority of our trading takes place.

Our loan portfolio was just under HK\$200 million as at 30 June 2006. This business is targeted for strong growth and we have hired an experienced manager in the first half of 2006 to steer this development.

Subsequent to 30 June 2006 the Financial Services Division has appointed a Managing Director to further develop and expand this division.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remains sound. At 30 June 2006, the Group's shareholders' funds increased to HK\$5,551 million as compared to HK\$5,331 million at 31 December 2005.

At 30 June 2006, the Group's total banking facilities stood at HK\$7,964 million (31 December 2005: HK\$10,195 million) of which term loans amounted to HK\$2,014 million (31 December 2005: HK\$1,869 million). The reduction in borrowings for the period reflected a reduction in working capital, particularly inventory in Mainland China, offset by ongoing investment and capital expenditure for business expansion. The Group has sufficient financial resources and adequate banking facilities to fund its ongoing operations, including capital expenditure, in the second half of 2006.

The maturity profiles of the Group's term loans are:

Within one year	HK\$1,070 million
In the second year	HK\$189 million
In the third to fifth years, inclusive	HK\$747 million
Beyond five years	HK\$8 million

Gearing and Interest Cover

At 30 June 2006, the Group's gearing ratio measured on the basis of total debts to equity was 51% against 60% at 31 December 2005 with the reduction due to significant reductions in working capital. Finance costs for the period ended 30 June 2006 were covered 5.4 times by EBITDA (including associates' results) as compared to 4.1 times for the period ended 30 June 2005.

Capital Structure

During the period, 68,514 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\$205,542.

Interest Rates and Foreign Currency Exposure

The Group's financing and treasury activities are monitored by a Central Treasury at the corporate level. The Central Treasury structures to match the tenure of its borrowings with its assets and liabilities. The Group also aims to minimize its risks of currency exposure in its Trading and Distribution businesses by matching the currency of importing with the selling currency and buying forward, through hedging mechanisms, where appropriate.

Contingent Liabilities

At 30 June 2006, the Group had contingent liabilities in respect of bank guarantees on behalf of customers amounting to HK\$43,200,000 (31 December 2005: HK\$30,614,000).

PROSPECTS

With our quality portfolio of businesses in Northeast Asia, we aspire to generate continued growth and strong returns. Mainland China market is the key focus in our expansion efforts as we seek to leverage on the immense growth opportunities arising from the country's rapid economic progress.

Looking forward to the rest of the year, the Group expects a slower second half, reflecting the timing of sales and profit recognition within our Property Division, as well as less robust growth in our Automobile business in Mainland China following an exceptionally strong first half. Overall, we are positive about the Group's performance and will continue to pursue more avenues of expansion and growth.

EMPLOYMENT POLICY

The Group has a professional and motivated workforce. It provides competitive remuneration packages to attract and retain the high quality employees that are an important ingredient in its continuing success. The Group's policy is to ensure rewards levels are market competitive. We evaluate our remuneration policies to ensure they are competitive. As part of an annual review of remuneration, we pay a discretionary bonus that reflects the performance and contribution of each staff member. The

Group also provides additional benefits including medical insurance and, if any employee so chooses, an alternative retirement benefit scheme to the Mandatory Provident Fund. The Group is also active in training and development at all levels to ensure employees have the necessary skills and knowledge to fulfill their responsibilities in a professional manner.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period under review.

RESIGNATION OF DIRECTORS

Both Mr Volker Josef Eckehard Harms and Mr Poh Yeow Kim, Lawrence resigned as Executive Directors of the Company on 19 April 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices, contained in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited during the six months ended 30 June 2006, except for the following deviations:

(1) Code Provision A.2.1

Code A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Company has not appointed a Chairman. The roles of the chairman and the chief executive officer are performed by Mr Gan Khian Seng. Mr Gan is the Managing Director of the Company. While serving as the chairman of the Company, Mr Gan leads the Board and is responsible for the proceedings and workings of the Board. He is also responsible for running the Group and executing strategies adopted by the Board. The Board considers that this structure will not impair the balance of power and authority between the Board and the Management of the Group. The balance of power and authority is ensured by the operations of the Board which comprises of experienced and professional individuals. Given the Group's current stage of development, the Board considers that vesting the roles of chairman and chief executive officer in the same person facilitates the execution of the Group's business strategies and maximizes the effectiveness of its operation. The Board shall review the existing structure from time to time.

(2) Code Provision A.4.1

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election.

The non-executive directors of the Company are not appointed for a specific term. However, all the directors of the Company (executive and non-executive) are subject to retirement by rotation and be eligible for re-election in accordance with the provisions of the Company's articles of association. At each annual general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest to one-third, shall retire from office. As such, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Specific enquiries have been made to all directors of the Company, who have confirmed that they have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2006. Relevant employees who are likely to be in possession of unpublished price sensitive information of the Company are also subject to compliance with written guidelines on no less exacting terms than the Model Code during the six months ended 30 June 2006.

AUDIT COMMITTEE

The Company has established an Audit Committee to review and monitor the financial reporting process and internal control of the Company. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the interim report and the unaudited consolidated financial statements for the six months ended 30 June 2006. The Audit Committee currently comprises two independent non-executive directors, namely, Mr Fung Ka Pun, Mr Hubert Meier and one non-executive director, Mr Victor Yang. Mr Fung Ka Pun is the Chairman of the Audit Committee.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

All information required by paragraph 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By Order of the Board
Lim Mooi Ying, Marianne
Company Secretary

Hong Kong, 21 September 2006

As at the date of this announcement, the Executive Directors of the Company are Mr Gan Khian Seng, Mr Yong Foo San and Ms Lim Mooi Ying, Marianne. The Non-Executive Directors are Mr Victor Yang, Mr Christopher Patrick Langley and Mr Lam Kwong Yu. The Independent Non-Executive Directors are Mr Fung Ka Pun, Mr Hubert Meier and Mr Alan Howard Smith.

“Please also refer to the published version of this announcement in the South China Morning Post”