LEI SHING HONG LIMITED

利星行有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 238)

ANNOUNCEMENT OF ANNUAL RESULTS 2006

HIGHLIGHTS

- Net profit attributable to equity holders of the parent was HK$315 million, representing an increase of 10% over the previous year.
- The Group's turnover rose 33% to HK$17,692 million.
- Basic earnings per share was HK29.7 cents (2005 (restated): HK27.0 cents).
- The Board of Directors proposed a final dividend of HK3 cents per share (2005: HK3 cents).

RESULTS

The Board of Directors (the "Board") of Lei Shing Hong Limited (the "Company") is pleased to announce the condensed consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006 together with the comparative figures as follows:

Consolidated Income Statement
Year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
REVENUE	4	**17,692,282**	13,298,776
Cost of sales and services		**(15,799,786)**	(11,717,865)
Gross profit		**1,892,496**	1,580,911
Other income and gains		**164,743**	75,865
Selling and distribution costs		**(280,747)**	(170,522)
Administrative expenses		**(773,441)**	(620,179)
Other operating expenses		**(205,525)**	(261,425)
PROFIT FROM OPERATING ACTIVITIES		**797,526**	604,650
Finance costs	6	**(195,063)**	(151,772)
Share of profits and losses of associates		**65,522**	54,949
PROFIT BEFORE TAX	5	**667,985**	507,827
Tax	7	**(286,720)**	(194,818)
PROFIT FOR THE YEAR		**381,265**	313,009
Attributable to:			
Equity holders of the parent		**315,215**	285,879
Minority interests		**66,050**	27,130
		381,265	313,009
DIVIDEND	8	**31,818**	31,816
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
– Basic		**HK29.7 cents**	HK27.0 cents
– Diluted		**HK29.6 cents**	HK26.8 cents

Consolidated Balance Sheet
31 December 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,683,104**	1,382,267
Investment properties		**654,354**	427,110
Prepaid land premiums		**237,937**	235,761
Properties under development		**1,219,666**	809,680
Goodwill		**702,654**	676,466
Other intangible asset		**1,650**	1,650
Interests in associates		**1,981,043**	1,725,853
Available-for-sale investments		**9,921**	11,689
Deferred tax assets		**30,213**	21,119
Net investments in finance leases		**23,512**	37,888
Loans and receivables		**315,119**	98,380
Total non-current assets		**6,859,173**	5,427,863
CURRENT ASSETS			
Inventories		**2,786,488**	2,213,970
Properties held for sale		**840,215**	1,217,145
Trade receivables	*10*	**855,759**	609,477
Bills receivable with full recourse		**26,545**	183,857
Net investments in finance leases		**15,649**	82,864
Loans and receivables		**132,394**	336,383
Prepaid land premiums		**6,569**	5,127
Prepayments, deposits and sundry receivables		**1,053,935**	951,781
Equity investments at fair value through profit or loss		**28,207**	126,370
Pledged time deposits		**28,897**	23,883
Cash and cash equivalents		**1,383,276**	1,300,385
Total current assets		**7,157,934**	7,051,242
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,892,576**	1,483,722
Sundry payables and accruals		**1,865,182**	1,767,613
Derivative financial instruments		**1,603**	16,047
Interest-bearing bank borrowings and other non interest-bearing borrowing		**2,229,835**	1,933,752
Bills discounted with full recourse		**26,545**	183,857
Tax payable		**248,374**	224,639
Provisions		**46,458**	45,411
Total current liabilities		**6,310,573**	5,655,041
NET CURRENT ASSETS		**847,361**	1,396,201

TOTAL ASSETS LESS CURRENT LIABILITIES	**7,706,534**	6,824,064
NON-CURRENT LIABILITIES		
Derivative financial instruments	**41,575**	15,177
Interest-bearing bank borrowings	**1,371,073**	963,268
Deferred tax liabilities	**209,262**	196,657
Total non-current liabilities	**1,621,910**	1,175,102
Net assets	**6,084,624**	5,648,962
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**1,060,588**	1,060,520
Reserves	**4,679,022**	4,240,256
Proposed final dividend	**31,818**	31,816
	5,771,428	5,332,592
Minority interests	**313,196**	316,370
Total equity	**6,084,624**	5,648,962

Notes to Consolidated Financial Statements

1. Basis of Preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for certain investment properties which have been measured at the carrying amount as at 1 January 2005 as their deemed cost and available-for-sale financial assets and equity investments at fair value through profit or loss, which have been measured at fair value.

2. Impact of New and Revised HKFRSs

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 *The Effects of Changes in Foreign Exchange Rates*

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 27 *Consolidated and Separate Financial Statements*

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements.

In prior years, the Group had equity investments in companies registered in the People's Republic of China (the "PRC" companies), where control was 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 could only be regarded as the Company's subsidiaries when they also met the definition of subsidiaries under the then Hong Kong Companies Ordinance which defined an entity to be a subsidiary of another company if that company controls more than half of an entity's voting power, controls the board of directors of the entity or holds more than half of the entity's issued share capital. The Group's equity investments in the PRC companies had therefore been recorded as available-for-sale investments, which were stated at cost less any impairment losses.

Upon the adoption of the Companies (Amendment) Ordinance 2005, the PRC companies meet the definition of subsidiaries under both HKAS 27 and the Companies (Amendment) Ordinance 2005 and consolidation of the PRC companies is required. In accordance with the revised HKAS 27, comparative amounts have been restated. The effects of the above change are summarised below.

	2006	2005
	HK$'000	*HK$'000*
Consolidated income statement for the year ended 31 December		
Increase in revenue	**8,701,525**	1,224,271
Increase in cost of sales and services	**(8,010,568)**	(922,950)
Decrease in other income and gains	**(105,933)**	(65,359)
Increase in selling and distribution costs	**(78,891)**	(34,334)
Increase in administrative expenses	**(119,859)**	(67,909)
Increase in other operating expenses	**(44,104)**	(37,772)
Increase in finance costs	**(9,387)**	(3,605)
Increase/(decrease) in share of profits and losses of associates	**30,918**	(895)
Increase in tax	**(93,715)**	(42,711)
Total increase in profit	**269,986**	48,736
Increase in basic earnings per share	**HK25.46 cents**	HK4.61 cents
Increase in diluted earnings per share	**HK25.33 cents**	HK4.58 cents

	2006	2005
	HK$'000	*HK$'000*
Consolidated balance sheet and equity at 1 January		
Increase in property, plant and equipment	**82,103**	17,459
Decrease in investment properties	**(35,831)**	–
Increase in properties under development	**146,952**	114,918
Increase in interests in associates	**1,747**	2,594
Decrease in available-for-sale investments	**(248,826)**	(202,128)
Increase in inventories	**1,130,533**	50,453
Decrease in trade receivables	**(1,198,288)**	(74,844)
Decrease in loans and receivables	**(85,511)**	–
Increase in prepayments, deposits and sundry receivables	**187,356**	52,751
Increase in cash and cash equivalents	**350,287**	164,979
	330,522	126,182
Increase in trade and bills payables	**23,659**	25,714
Increase in sundry payables and accruals	**155,557**	65,488
Increase in interest-bearing bank borrowings	**43,236**	5,660
Increase in tax payable	**21,087**	45
Increase in reserve funds	**993**	–
Increase/(decrease) in the exchange fluctuation reserve	**3,351**	(582)
Increase/(decrease) in retained profits	**31,558**	(1,780)
Increase in minority interests	**51,081**	31,637
	330,522	126,182

	2006	2005
	HK$'000	*HK$'000*
Consolidated balance sheet and equity at 31 December		
Increase in property, plant and equipment	**176,122**	82,103
Decrease in investment properties	**(35,114)**	(35,831)
Increase in properties under development	**397,300**	146,952
Increase in interests in associates	**32,738**	1,747
Decrease in available-for-sale investments	**(248,826)**	(248,826)
Increase in inventories	**1,163,288**	1,130,533
Decrease in trade receivables	**(31,826)**	(1,198,288)
Decrease in loans and receivables	**(232,670)**	(85,511)
Increase in prepayments, deposits and sundry receivables	**222,101**	187,356
Increase in cash and cash equivalents	**305,718**	350,287
	1,748,831	330,522
Increase in trade and bills payables	**857,596**	23,659
Increase in sundry payables and accruals	**206,125**	155,557
Increase in interest-bearing bank borrowings	**287,926**	43,236
Increase in tax payable	**40,467**	21,087
Increase in reserve funds	**10,825**	993
Increase in the exchange fluctuation reserve	**16,808**	3,351
Increase in retained profits	**247,109**	31,558
Increase in minority interests	**81,975**	51,081
	1,748,831	330,522

(c) HKAS 39 *Financial Instruments: Recognition and Measurement*

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(d) HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

3. Impact of issued but not yet effective HKFRSs

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard 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 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. The standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

4. Segment Information

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

	Revenue		Operating profits	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Restated)		(Restated)
Trading of motor vehicles and spare parts and provision of after-sales services	**12,882,723**	8,832,536	**640,971**	294,950
Trading of heavy equipment and provision of product support services	**2,654,650**	2,217,284	**97,334**	71,382
Property development and investment	**621,952**	473,070	**4,552**	254,884
General trading	**1,608,060**	4,344,226	**44,334**	77,298
Securities broking and trading	**53,510**	13,123	**8,436**	(22,051)
Trading of foreign exchange	**–**	(34,128)	**–**	(75,552)
Money lending	**17,797**	10,670	**(6,172)**	4,186
Others	**3,316**	4,439	**21,553**	28,337
	17,842,008	15,861,220	**811,008**	633,434
Intersegment eliminations	**(149,726)**	(2,562,444)	**(13,482)**	(28,784)
	17,692,282	13,298,776	**797,526**	604,650

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

	Revenue	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
People's Republic of China:		
Hong Kong	**789,192**	1,182,846
Mainland China	**12,433,846**	8,718,652
Other Asian regions	**4,469,244**	3,397,278
	17,692,282	13,298,776

5. Profit before tax

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

	2006 *HK$'000*	2005 *HK$'000* (Restated)
Cost of inventories sold	**15,248,128**	11,313,223
Cost of services rendered	**551,658**	404,642
Depreciation of property, plant and equipment	**131,475**	96,488
Depreciation of investment properties	**9,693**	4,970
Recognition of prepaid land premiums	**6,472**	4,289
Release of goodwill upon sales of developed properties	**11,599**	7,972
Minimum lease payments under operating leases for land and buildings	**52,549**	63,798
Auditors' remuneration	**5,708**	4,787
Employee benefits expense (including directors' remuneration):		
Wages and salaries	**461,735**	354,870
Pension scheme contributions	**21,103**	18,035
Less: Forfeited contributions	**(1,006)**	(135)
Net pension scheme contributions	**20,097**	17,900
	481,832	372,770
Foreign exchange differences, net	**(54,876)**	12,549
Impairment of trade receivables	**11,629**	18,154
Impairment of a short term receivable	**5,000**	–
Write-down of inventories to net realisable value	**34,115**	20,258
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	**12,400**	8,310
Provision for long service payments	**7,804**	10,415
Provision for product warranties	**9,957**	11,311
Fair value gains on equity investments at fair value through profit or loss, net	**(7,019)**	(1,851)
Gain on disposal of items of property, plant and equipment	**(596)**	(128)
Dividend income from listed investments	**(10,951)**	(7,463)
Net rental income	**(31,057)**	(15,661)
Interest income	**(60,611)**	(48,308)

6. Finance Costs

	Group	
	2006 *HK$'000*	2005 *HK$'000* (Restated)
Interest on borrowings wholly repayable within five years:		
Bank loans	**132,774**	104,922
Trust receipt loans	**53,696**	43,638
Bank overdrafts	**8,593**	3,212
	195,063	151,772

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 year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Group:		
Income tax		
Current – Hong Kong		
Charge for the year	**2,122**	18,468
Overprovision in prior years	**(1,130)**	(4,918)
Current – Elsewhere		
Charge for the year	**259,207**	101,295
Underprovision in prior years	**1,521**	–
Land appreciation tax		
Charge for the year	**20,581**	70,035
Deferred	**4,419**	9,938
Total tax charge for the year	**286,720**	194,818

The share of tax attributable to associates amounting to HK$29,558,000 (2005 (restated): HK$23,879,000) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

The land appreciation tax is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 50% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sale of properties less deductible expenditures, including lease charges of land use rights, borrowing costs and all property development expenditures. The land appreciation tax of HK$20,581,000 (2005: HK$70,035,000) is charged to the consolidated income statement for the year.

8. Dividend

	Company	
	2006	2005
	HK$'000	*HK$'000*
Proposed final – HK3 cents (2005: HK3 cents) per ordinary share	**31,818**	31,816

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculations	**315,215**	285,879

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**1,060,559,323**	1,057,596,486
Effect of dilution – Weighted average number of ordinary shares: Warrants	**5,512,496**	7,259,401
	1,066,071,819	1,064,855,887

As the subscription prices of the share options outstanding during the years ended 31 December 2006 and 2005 were higher than the respective average market prices of the Company's shares during these years, there was no dilutive 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 at 4:00 p.m. of 19 June 2006.

10. Trade Receivables

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

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Current	**613,089**	412,768
0 – 3 months	**230,735**	191,232
4 – 6 months	**8,154**	3,767
7 – 12 months	**2,720**	1,628
Over 1 year	**1,061**	82
	855,759	609,477

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:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Current	**1,517,970**	1,384,780
0 – 3 months	**305,029**	70,710
4 – 6 months	**69,577**	8,879
7 – 12 months	**–**	19,353
	1,892,576	1,483,722

12. Comparative Amounts

As further explained in note 2 above, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

In addition, in prior years, the Group's land appreciation tax levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 50% on the appreciation of land value, was included in the cost of sales and services in the consolidated income statement. To conform with the current year's presentation, the Group's land appreciation tax of HK$20,581,000 (2005: HK$70,035,000) was presented as a component of the Group's total tax charge in the consolidated income statement.

OPERATIONS REVIEW

Automobile Division

In 2006, our Automobile Division delivered a very strong performance. Turnover increased mainly as a result of high volume growth in our key markets of Mainland China and Korea.

Mainland China

We have continued our strategy of developing the Group's sales and after-sales network in the Northern and Eastern regions of Mainland China. Our network coverage was expanded to 43 outlets by the end of 2006, with 8 more outlets planned for construction in 2007.

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

In 2006, unit sales increased by 20% over last year, with a total of 10,669 new car sales reported. This upward trend was driven by a number of factors, including: the purchase of vehicles by consumers in the first quarter ahead of anticipated increases in consumption tax; positive response to the new S-Class launched in the fourth quarter of 2005; the successful introduction of the CKD E-Class into Mainland China; and on-going strong sales of the M-Class.

Turnover from Service operations increased by 45% over last year, reflecting the growth in the vehicle parc and the positive impact of the new service facilities.

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 focused entirely on the sale of Mercedes-Benz and Smart brands since January 2006, achieved sales volume growth of almost 6% as a result of continued strong sales for the S-Class and the growing popularity of the M-Class. Sales value growth was even greater, as a result of this enhanced product mix. In addition, another key factor behind DCT's sales growth was the significant decline in grey market sales, down by almost 43%.

Our retail business, Capital Motors, Inc., was a key driver in the improved sales of official Mercedes-Benz cars in 2006 and increased new car sales volume by 7%. Overall revenue was also enhanced through greater sales of the more expensive S-Class and M-Class models. The facelifted E-Class was the only new model to be launched in 2006.

The grand opening of the new flagship Taichung facility was held in February 2006. The Group is also currently renovating and upgrading the Taoyuan branch in North Taiwan and developing a new 3-S "Autohaus" in Kaohsiung, scheduled to be completed at the end of 2007.

Korea

Through our associate company, Mercedes-Benz Korea Limited, official Mercedes-Benz sales achieved a 12.4% share of the imported vehicle market. Total Mercedes-Benz sales reached 5,026 in 2006, a 25% increase as compared with 2005.

The Group's subsidiaries, Han Sung Motor Co Ltd ("Han Sung") and Busan Star Motor Co Ltd ("Busan Star"), contributed to 55.3% of the overall Mercedes-Benz retail sales in the Korean market. Han Sung and Busan Star operate 7 dealerships and achieved unit sales growth of 13.4% as compared with 2005. This increase reflects the strong sales of the new S-Class, launched in October 2005, and the popularity of the facelifted E-Class, launched in September 2006.

The relocation of the Incheon showroom and quick service centre was completed and officially opened in September 2006.

Stuttgart Sports Car Limited, our exclusive Porsche importer and distributor, achieved unit sales growth of 54% in 2006 as the Cayman model was successfully launched and both the Cayenne and 911 models experienced strong growth. Land has been acquired for a new Porsche dealership in Busan and 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 successfully commenced sales of new and previously-owned Porsches in October 2006.

Vietnam

Good progress was achieved by our Vietnam Star business with unit sales growing by 50% to 549 units in 2006. The Autohaus in Ho Chi Minh City was open for the full year, as well as a showroom in the centre of Hanoi. An Autohaus in Hanoi was completed at the very end of 2006 and commenced operations in 2007. With two Autohaus in Vietnam, we expect strong growth in car sales and, in particular, the after-sales business in 2007.

Machinery Division

The Group's Machinery Division continues to be the largest Caterpillar hydraulic excavator dealership in the world, distributing to the Mainland China and Taiwan markets.

Mainland China

Turnover for Lei Shing Hong Machinery Limited ("LSHM") increased by 22% over 2005, in line with continued expansion of the market and gains in market share. Machine sales increased by 27% and product support sales by 32%, while engine sales recorded lower growth as a result of slowing demand.

Used equipment machine sales also increased during the year with the opening of LSHM's new dedicated used equipment rebuild facility in Yangzhou.

Our power systems division officially commenced marketing the Perkins line of industrial engines in November, with volume orders received from various OEM customers for delivery throughout 2007.

Continued emphasis was placed on staff training and development, as well as 6 Sigma process improvement during the year.

Taiwan

Capital Machinery Limited grew revenue by 7% in 2006 as compared with 2005, despite the lack of growth in the industry. During 2006, the facility in Tayuan was upgraded and renovated. In addition, the newly acquired facility in Taichung was fully renovated and is now in full operation. Other facility projects currently in progress include the addition of a new service workshop building in Taichung and the construction of a new facility in Kaohsiung.

Comprehensive product, technical and management training programmes are being implemented to upgrade skill levels, management talent and staff professionalism. The 6 Sigma process improvement programme was expanded during 2006 and this will be a continued focus to reduce costs, improve efficiency and better utilise our resources.

Property Division

The Group's Property Division is engaged in the development of quality property projects, both commercial and residential, in the major cities of Mainland China.

Sales of 98% of the residential units of Yan An Xi Road were recognised during 2006, with the office and retail towers sold in 2005.

Phase I of "Starcrest" development is 85% sold and most of the remaining units let out. Sales and purchase agreements are in hand for 98% of the residential units within Phase II and with the certificates already obtained, the sales will be recognised in 2007.

Phase III of "Starcrest" is made up of 341 residential units, as well as retail and car park space with a total gross floor area of 119,992 sq. m. Work is in progress on the foundation of the residential block, scheduled to be completed shortly. The commencement of the super structure works are expected to begin in the second quarter of 2007, while drawings have been completed for the commercial building and the construction permit is expected to be obtained shortly.

The topping out of "LSH Plaza" has now been achieved and interior work is well underway, with completion of the total project anticipated by early 2008. The Group plans to retain this development as we see good rental potential for this prestigious commercial development in Beijing.

We continue to consider opportunities for expanding our land bank and have participated in a number of auctions, although no major purchases were made during the year under review.

Trading Division

The Group's Trading Division specialises in commodity-based products, watch components and fertiliser trading.

In 2006, total external sales were down by 18% year-on-year, with sharp declines in all the product groups as predicted. Watch component sales dropped, reflecting a slackening of demand for low-end finished watches from overseas. Fertiliser and chemical sales also declined sharply year-on-year. This was in part due to most fertiliser importers carrying high inventory into 2006. This was further exacerbated by very weak demand and tight shipping space.

Financial Services Division

The Group's Financial Services Division posted a good year on the back of a strong global economy. The performance of our securities brokerage business also benefited from increased trading volumes in the Hong Kong market due to the large number of IPOs during the year, coupled with rising share prices. Our proprietary share trading business was boosted by the overall improved market conditions, particularly in Hong Kong and other Asian markets where we are active.

The Group's insurance business also benefited from the expanding opportunities being generated in China where our automotive, machinery and property businesses continue to grow.

Our loan portfolio doubled from 30 June 2006 to 31 December 2006, rising to almost HK$400 million as a result of the key appointments made in the middle of the year and the general expansion of our credit operations.

FINANCIAL REVIEW

Liquidity and Financial Resources

The Group's financial position remains sound. At 31 December 2006, the Group's shareholders' funds increased by 8% to HK$5,771 million as compared to HK$5,333 million restated at 31 December 2005.

At 31 December 2006, the Group's total banking facilities stood at HK$8,933 million (31 December 2005 (restated): HK$10,238 million) of which bank loans amounted to HK$3,508 million (31 December 2005 (restated): HK$2,897 million). The increase in borrowings for the year reflects 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, for the coming fiscal year.

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

	HK$ million
Within one year	**2,137**
In the second year	**601**
In the third to fifth years, inclusive	**770**

Gearing and Interest Cover

At 31 December 2006, the Group's gearing ratio measured on the basis of total debts to equity before minority interests was 63% against 58% restated at 31 December 2005 with the increase due to capital expenditure. Finance costs for the year ended 31 December 2006 were covered 5.4 times by EBITDA (including associates' profit before tax) as compared to 5.3 times restated for the year ended 31 December 2005.

Capital Structure

During the period from 1 January 2006 to 19 June 2006, 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. The warrant subscription reserve of HK$34,257 attaching to the exercised warrants was reclassified into the share premium account accordingly.

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 minimise 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 the balance sheet date, the Group had contingent liabilities in respect of performance guarantees given to banks for certain customers amounting to HK$121 million (2005: HK$31 million).

At the balance sheet date, the Company had contingent liabilities relating to guarantees given to banks to secure general banking facilities granted to subsidiaries amounting to HK$7,049 million (2005: HK$8,030 million), where general banking facilities utilised by subsidiaries amounting to HK$2,245 million (2005: HK$4,363 million).

PROSPECTS

The major markets the Group operates in continue to perform well with growth in China GDP anticipated to be around 9% for 2007. The new year has got off to a positive start and management continues to be confident about the future. The markets the Group operates in have excellent long term potential and the Group is well placed to capitalise on these opportunities. The focus remains on providing our customers differentiated premium products and superior after sales services from an extensive and growing network.

EMPLOYMENT POLICY

The Group employs 4,203 staff based in Asia. The Group is dedicated to nurturing the development of a dynamic and loyal workforce. Sound business practices have therefore been implemented and professional support is provided where needed. The Group recognises that in order to sustain continuing success, a professional and motivated workforce is a key component in the company's development. Competitive remuneration packages are offered by the Group to attract and retain the highest quality employees.

POST BALANCE SHEET EVENTS

On 1 March 2007, Mr. David Park was appointed as an Executive Director of the Company and the Chairman of the Board.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law on the Group cannot be reasonably estimated at this stage.

ANNUAL GENERAL MEETING

The Annual General Meeting of the Company will be held on 22 May 2007. For details of the Annual General Meeting, please refer to the Notice of Annual General Meeting which is expected to be published on or about 27 April 2007.

CLOSURE OF REGISTER OF MEMBERS

The transfer books and Register of Members of the Company will be closed for the period from 16 May 2007 to 22 May 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Tengis Limited at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 15 May 2007. The final dividend will be paid on or about 30 May 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year 2006 except for the following deviations:

Code Provision A.2.1

This code provision stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

The Company did not separate the roles of chairman and chief executive officer for 2006. As a deviation from the CG Code, the roles of the chairman and chief executive officer were not separated and were performed by the same individual, Mr. Gan Khian Seng. Mr. Gan Khian Seng is the Managing Director of the Company. While serving as the chairman of the Company in 2006, Mr. Gan Khian Seng led the Board and was responsible for the proceedings and workings of the Board. He was also responsible for running the Group and executing strategies adopted by the Board. Subsequently on 1 March 2007, Mr. David Park was appointed as an Executive Director of the Company and the Chairman of the Board. This allows Mr. Gan Khian Seng, the Managing Director, to concentrate on his role of chief executive officer to meet the rapid growth of the business of the Group.

In view of the above appointment, the roles of chairman and chief executive officer have been segregated with effect from 1 March 2007, and the Company has since the same day, been fully complying with the code A.2.1 of the CG Code.

Code Provision A.4.1

This code provision 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.

Subsequently on 19 April 2007, the Board agreed to fix the term of service of non-executive directors of the Company for a period not exceeding three years. Once the service contracts have been signed by all the non-executive directors, the Company will be in full compliance with the code A.4.1 of the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") contained in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by Directors. After making specific enquiries, all Directors have confirmed that they have complied with the required standard set out in the Model Code for 2006.

AUDIT COMMITTEE

The Board of the Company has formed an Audit Committee to review and monitor the financial reporting process and internal control of the Company. The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the financial statements for the year ended 31 December 2006 with management. The Audit Committee of the Board currently comprises two independent non-executive directors, Mr. Fung Ka Pun and Mr. Hubert Meier and one non-executive director, Mr. Victor Yang. Mr. Fung Ka Pun is the Chairman of the Audit Committee.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

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

All information required by paragraph 45(1) to 45(8) 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, 19 April 2007

As at the date of this announcement, the executive directors of the Company are Mr. David Park, Mr. Gan Khian Seng, Mr. Yong Foo San and Ms. Lim Mooi Ying, Marianne; the non-executive directors are Mr. Christopher Patrick Langley, Mr. Victor Yang 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"