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If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Dah Chong Hong Holdings Limited, you should at once hand this Circular to the purchaser or the transferee or to the licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

(1) DISCLOSEABLE AND CONNECTED TRANSACTION

**ACQUISITION OF A 49% INTEREST IN FAW TOYOTA 4S COMPANY AND
A 50% INTEREST IN LEXUS 4S COMPANY
AND THE RELATED SHAREHOLDERS' LOANS**

(2) DISCLOSEABLE TRANSACTION

ACQUISITION OF GUANGDONG VICTORY

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**

COMMERZBANK 

Commerzbank AG Hong Kong Branch

A letter from the Board is set out on pages 6 to 26 of this Circular. A letter of advice from the Independent Financial Adviser (as defined herein) to the Independent Board Committee (as defined herein) and the Independent Shareholders (as defined herein) is set out on pages 29 to 40 of this Circular. A letter of the Independent Board Committee is set out on pages 27 to 28 of this Circular.

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DEFINITIONS

In this Circular, the following expressions have the following meanings unless the context otherwise requires:

“4S Acquisition”	the acquisition of the 4S Sale Shares and the related shareholders’ loans by Delight Star from Denker Investment pursuant to the terms of the 4S Acquisition Agreement (including the Contractual Arrangements);
“4S Acquisition Agreement”	the sale and purchase agreement dated 26 August 2008 entered into between Delight Star, Denker Investment, the Company and Mr. Mak in relation to the 4S Acquisition;
“4S Completion”	completion of the 4S Acquisition;
“4S Sale Shares”	49 FAW Toyota 4S Shares and 50 Lexus 4S Shares;
“4S Target Companies”	collectively FAW Toyota 4S Company and Lexus 4S Company;
“4S Target Group”	collectively the FAW Toyota 4S Group and Lexus 4S Group and “4S Target Group Company” and “4S Target Group Companies” shall be construed accordingly;
“Anping”	Anping Holdings Inc., a company incorporated in the BVI with limited liability;
“associate(s)”	has the meaning given to it by the Listing Rules;
“Board”	the board of Directors;
“BVI”	the British Virgin Islands;
“Circular”	the circular of the Company dated 16 September 2008;
“CITIC Pacific”	CITIC Pacific Limited (中信泰富有限公司), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange, and the holding company of the Company;
“CITIC Pacific Group”	CITIC Pacific and its subsidiaries (as defined under the Listing Rules), or, where the context so requires, any of them (including the Company);
“Company”	Dah Chong Hong Holdings Limited 大昌行集團有限公司, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange, and a non-wholly owned subsidiary of CITIC Pacific;
“connected person(s)”	has the meaning given to it by the Listing Rules;

DEFINITIONS

“Contractual Arrangements”	contractual arrangements with the registered owners of Guangzhou Guangbao, Guangzhou Junjia and Foshan Junan (if applicable) that are implemented by the Group, the details of which are set out in the section headed “Contractual Arrangements” of this Circular;
“Contractual Arrangements Agreements”	the agreements for the Contractual Arrangements, the details of which are set out in the section headed “Contractual Arrangements” of this Circular;
“Delight Star”	Delight Star Enterprises Limited 愉星企業有限公司, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of the Company;
“Denker Investment”	Denker Investment Limited 駿佳投資有限公司, a company incorporated in Hong Kong with limited liability;
“Directors”	the directors of the Company;
“Established Group”	Guangzhou Guangbao and Guangzhou Junjia (excluding any of their respective subsidiaries and investments);
“FAW Toyota 4S Company”	Strong Step Holdings Limited 碩晉控股有限公司, a company incorporated in Hong Kong with limited liability;
“FAW Toyota 4S Group”	FAW Toyota 4S Company and its subsidiaries;
“FAW Toyota 4S Shares”	issued ordinary shares of HK\$1.00 each in the share capital of FAW Toyota 4S Company;
“Financial Assistance”	(i) the granting of replacement guarantees after 4S Completion in a sum of not more than HK\$80 million and (ii) the provision of additional funding by Delight Star in a sum not to exceed HK\$100 million, the details of which are set out in the section headed “4S Acquisition Agreement — <i>Other Terms</i> ” of this Circular;
“Foshan Junan”	佛山駿安豐田汽車銷售服務有限公司 (Foshan Junan Toyota Motors Sale and Service Limited), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of FAW Toyota 4S Company;
“Group”	the Company and its subsidiaries (as defined under the Listing Rules), or, where the context so requires, any of them;

DEFINITIONS

“Guangdong Victory”	廣東偉德利電器製造有限公司 (Guangdong Victory Electrical Appliances Manufacturing Co., Ltd.), a wholly-owned foreign enterprise incorporated in the PRC;
“Guangzhou Guangbao”	廣州廣保豐田汽車銷售服務有限公司 (Guangzhou Guangbao Toyota Motors Sale and Service Limited), a company established in the PRC with limited liability and is an indirect wholly-owned subsidiary of FAW Toyota 4S Company;
“Guangzhou Junjia”	廣州駿佳凌志汽車銷售服務有限公司 (Guangzhou Junjia Lexus Motors Sale and Service Limited), a company established in the PRC with limited liability and is an indirect 55%-owned subsidiary of Lexus 4S Company (the remaining 45% interests are directly held by an independent third party);
“GV Acquisition”	the acquisition of the entire issued share capital of Silver Precious and the GV Debt by Regent Link pursuant to the terms of the GV Acquisition Agreement;
“GV Acquisition Agreement”	the agreement dated 26 August 2008 entered into between Regent Link, Anping and Mr. Chan in relation to the GV Acquisition;
“GV Completion”	the completion of the GV Acquisition Agreement on 29 August 2008;
“GV Debt”	the outstanding amount at a book value of HK\$75,381,247 owed by Silver Precious to Anping;
“GV Sale Shares”	two shares of US\$1.00 each in the capital of Silver Precious;
“GV Target Group”	Silver Precious and its subsidiaries;
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong;
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	an independent committee of the Board, consisting of Cheung Kin Piu, Valiant, Hsu Hsung, Adolf and Yeung Yue Man, all being independent non-executive Directors;

DEFINITIONS

“Independent Financial Adviser” or “Commerzbank”	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorized financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO, and is appointed as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the 4S Acquisition and the Financial Assistance;
“Independent Shareholder(s)”	the independent shareholders of the Company, i.e. the Shareholders as no Shareholder is required to abstain from voting in respect of the 4S Acquisition and the Financial Assistance;
“Latest Practicable Date”	9 September 2008, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular;
“Lexus 4S Company”	Star Partner Holdings Limited 易博控股有限公司, a company incorporated in Hong Kong with limited liability;
“Lexus 4S Group”	Lexus 4S Company and its subsidiaries;
“Lexus 4S Shares”	issued ordinary shares of HK\$1.00 each in the share capital of Lexus 4S Company;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Mr. Chan”	Mr. Chan Wai Keung;
“Mr. Mak”	Mr. Mak Hing Lung;
“PRC”	the People’s Republic of China;
“Profit Paradise”	Profit Paradise Investments Limited 程生投資有限公司, a company incorporated in Hong Kong with limited liability;
“Regent Link”	Regent Link Enterprises Corp., a company incorporated in the BVI with limited liability and a wholly-owned subsidiary of the Company;
“RMB”	Renminbi, the lawful currency of the PRC;
“SFO”	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong);

DEFINITIONS

“Share(s)”	share(s) of HK\$0.15 each in the share capital of the Company;
“Shareholder(s)”	holders of the shares of the Company;
“Silver Precious”	Silver Precious International Limited, a company incorporated in the BVI with limited liability;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder(s)”	has the meaning given to it under the Listing Rules;
“Sunny Linker”	Sunny Linker Development Limited 佳駿發展有限公司, a company incorporated in Hong Kong with limited liability; and
“US\$”	United States dollar, the lawful currency of the United States.

Unless the context otherwise requires and for the purpose of illustration only, the conversion rate of RMB1.00 = HK\$1.14 is adopted.



大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

Executive Directors:

Hui Ying Bun (*Chairman*)
Chu Hon Fai (*Deputy Chairman*)
Yip Moon Tong (*Chief Executive Officer*)
Mak Kwing Tim
Lau Sei Keung
Tsoi Tai Kwan, Arthur
Glenn Robert Sturrock Smith

*Registered Office and principal place
of business:*

8th Floor
DCH Building
20 Kai Cheung Road
Kowloon Bay
Hong Kong

Non-Executive Directors:

Ho Hau Hay, Hamilton
Chau Chi Yin
Chan Chui Sheung, Stella
Kwok Man Leung

Independent Non-Executive Directors:

Cheung Kin Piu, Valiant
Hsu Hsung, Adolf
Yeung Yue Man

16 September 2008

To the Shareholders,

Dear Sir or Madam,

(1) DISCLOSEABLE AND CONNECTED TRANSACTION

**ACQUISITION OF A 49% INTEREST IN FAW TOYOTA 4S COMPANY AND
A 50% INTEREST IN LEXUS 4S COMPANY
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(2) DISCLOSEABLE TRANSACTION

ACQUISITION OF GUANGDONG VICTORY

LETTER FROM THE BOARD

I. INTRODUCTION

Reference is made to the announcements of the Company dated 26 August 2008 in respect of the following matters:

- (1) Delight Star (a wholly-owned subsidiary of the Company) and the Company entered into the 4S Acquisition Agreement on 26 August 2008 with Denker Investment and Mr. Mak, pursuant to which Delight Star (or its nominee) agreed to purchase and Denker Investment agreed to sell 49% and 50% equity interests in FAW Toyota 4S Company and Lexus 4S Company, respectively, and the related shareholders' loans for a total consideration of HK\$143,716,000. Upon 4S Completion, Delight Star will have a 50% economic interest in each of the 4S Target Companies (i.e. FAW Toyota 4S Company and Lexus 4S Company); and
- (2) Regent Link (a wholly-owned subsidiary of the Company) entered into the GV Acquisition Agreement on 26 August 2008 to acquire from Anping the GV Sale Shares at the consideration of HK\$66,920,000 and the GV Debt at book value of HK\$75,381,247. The GV Sale Shares represent the entire issued share capital of Silver Precious, which indirectly owns a 100% interest in Guangdong Victory.

The purpose of this Circular is to provide you with (i) details of the 4S Acquisition and the Financial Assistance, the recommendations of the Independent Board Committee and the advice of the Independent Financial Adviser in respect of the 4S Acquisition and the Financial Assistance; and (ii) details of the GV Acquisition.

II. DETAILS OF THE TRANSACTIONS

(1) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF A 49% INTEREST IN FAW TOYOTA 4S COMPANY AND A 50% INTEREST IN LEXUS 4S COMPANY AND THE RELATED SHAREHOLDERS' LOANS

4S Acquisition Agreement

Date: 26 August 2008

Parties:

- (i) Purchaser: Delight Star (a wholly-owned subsidiary of the Company)
- (ii) Seller: Denker Investment
- (iii) Purchaser's Guarantor: the Company
- (iv) Seller's Guarantor: Mr. Mak

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Denker Investment, founded by Mr. Mak in 1992, is one of the companies operated by Mr. Mak and which is engaged in motor business, including businesses relating to the provision of vehicles sales, spare parts, maintenance services and customer survey services in the PRC.

Assets to be acquired:

49 FAW Toyota 4S Shares, representing 49% of the entire issued share capital of FAW Toyota 4S Company and 50 Lexus 4S Shares, representing 50% of the entire issued share capital of Lexus 4S Company and the related shareholders' loans. Upon 4S Completion, Delight Star will have a 50% economic interest in each of the 4S Target Companies based on the understanding that they will each be a joint venture company.

The 4S Target Companies are Denker Investment's holding vehicles for its interests in the businesses relating to the provision of vehicles sales, spare parts, maintenance services and customer survey services in respect of the "FAW Toyota" brand in Guangzhou and Foshan, the PRC and "Lexus" brand in Guangzhou, the PRC.

The major assets of FAW Toyota 4S Company are its 100% interests in each of Guangzhou Guangbao (which is held through the Contractual Arrangements (as described below)) and Foshan Junan (which may be held through the Contractual Arrangements), and are engaged in the provision of the above services in respect of the "FAW Toyota" brand. Foshan Junan was established on 7 August 2007 and only commenced its operations since December 2007. Denker Investment and Mr. Mak have undertaken to procure the establishment or acquisition at reasonable cost of two additional dealerships in respect of the "FAW Toyota" brand in the PRC by Guangzhou Guangbao (or such other entities as the parties may agree) by 31 December 2010. Guangzhou Guangbao is already in the process of acquiring interests in one of such additional dealership.

The major asset of Lexus 4S Company is its 55% interests in Guangzhou Junjia, which is held through the Contractual Arrangements and is engaged in the provision of the above services in respect of the "Lexus" brand.

Consideration:

The consideration for the 4S Acquisition is HK\$143,716,000.

The consideration for the 4S Acquisition was determined after arm's length negotiation between the parties having regard to the (i) financial track record of the Established Group; (ii) net asset value of the Established Group as at 4S Completion of not less than HK\$63,786,420; (iii) set up costs and future prospects of a newly completed dealership, Foshan Junan; (iv) establishment or acquisition of two additional dealerships in respect of the "FAW Toyota" brand in the PRC as undertaken by Denker Investment and Mr. Mak; and (v) goodwill and future prospects of the 4S Target Group, taking into account the possibility of the 4S Target Group to

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expand and to acquire additional dealerships in the future, and HK\$102,676,000 was attributed to (i) and (ii) above and HK\$41,040,000 was attributed to (iii), (iv) and (v) above.

The consideration for the 4S Acquisition will be funded by internal resources of the Company.

The consideration for the 4S Acquisition will be payable by Delight Star in the following manner:

- (a) a deposit of HK\$42,750,000 has been paid upon signing of the 4S Acquisition Agreement;
- (b) an amount equal to the consideration for the 4S Acquisition minus (i) any outstanding receivables due to the 4S Target Group from Denker Investment, Mr. Mak and/or their respective associates as at 4S Completion (if any) and (ii) the deposit, will be payable in cash upon 4S Completion; and
- (c) the amount equal to the outstanding receivables mentioned in (b) above (if any) will be payable to Denker Investment to satisfy such receivables due to the 4S Target Group.

The outstanding receivables amounted to approximately HK\$30,000,000 as at 31 July 2008.

If 4S Completion does not take place for any reason and the 4S Acquisition Agreement is terminated, the deposit (together with accrued interest on it) will be refunded by Denker Investment to Delight Star within 30 days after the termination.

Conditions:

4S Completion is conditional on:

- (a) all necessary consents or approvals required of the holding company of the Company (i.e. CITIC Pacific), if any, under the Listing Rules for the 4S Acquisition Agreement and the transactions contemplated thereunder having been obtained;
- (b) all necessary consents or approvals required of the holding company of Delight Star (i.e. the Company), if any, under the Listing Rules for the 4S Acquisition Agreement and the transactions contemplated thereunder having been obtained;
- (c) any regulatory approval and third party consents (including but not limited to the consent of relevant automobile manufacturers) required of Denker Investment for the 4S Acquisition having been obtained;

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- (d) the completion of the reorganisation of the 4S Target Group (including, amongst others, the entering into of the Contractual Arrangements Agreements);
- (e) Delight Star undertaking a financial due diligence review of the 4S Target Group and being reasonably satisfied with such review in all material aspects;
- (f) there being no material adverse change or development (including a prospective change or development), in the position or condition, financial or otherwise, of the 4S Target Group Companies or any of them, or in their or its earnings, business, assets or prospects prior to 4S Completion; and
- (g) the warranties given as at the date of the 4S Acquisition Agreement and immediately prior to 4S Completion remaining true, accurate and not misleading in all material respects.

In the event that any of the conditions has been not satisfied (or waived) on or before 30 September 2008 or such other later date as may be agreed by the parties, the 4S Acquisition Agreement will immediately terminate and the deposit (together with accrued interest on it) will be refunded to Delight Star.

Completion:

4S Completion shall take place on the fifth business day after all the conditions being satisfied or waived.

Upon 4S Completion, Delight Star will hold 49% and 50% of the entire issued share capitals of FAW Toyota 4S Company and Lexus 4S Company, respectively, and a 50% economic interest in each of the 4S Target Companies. As Delight Star will have an overriding casting vote which could be exercised by Delight Star at the meetings of the board of directors of the 4S Target Companies, the 4S Target Group is expected to be accounted for as subsidiaries of the Company and CITIC Pacific upon 4S Completion.

A confirmation from the reporting accountants of the Company has been obtained confirming that, upon 4S Acquisition Completion, Guangzhou Guangbao and Guangzhou Junjia will become subsidiaries of Sunny Linker and Profit Paradise, respectively.

Other Terms:

Upon 4S Completion, the parties shall enter into a shareholders' agreement for each of the 4S Target Companies. The board of directors of each of the 4S Target Companies shall consist of equal nominated members, of which Delight Star shall have a casting vote.

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Denker Investment and Mr. Mak have guaranteed that the net profits for the Established Group shall be no less than RMB12,900,000 (approximately HK\$14,706,000) for the period from 1 August 2008 to 31 December 2008 and no less than RMB31,000,000 (approximately HK\$35,340,000) for each of the two financial years ending 31 December 2010. 50% of any such shortfall shall be indemnified by Denker Investment and Mr. Mak to Delight Star on a dollar-to-dollar basis in cash. During these periods, it was agreed that Mr. Mak will remain as the responsible person for the management and operation of the 4S Target Group.

The Company will publish an announcement in accordance with Rule 2.07C of the Listing Rules if the net profits for the Established Group are less than the amount guaranteed and will include details in the Company's next annual report. The independent non-executive directors of the Company will also provide an opinion in the Company's next annual report as to whether Mr. Mak has fulfilled his obligations under the guarantee if this is the case.

The 4S Target Companies, amongst others, shall have a right of first refusal to invest at cost in respect of any new investment opportunity offered to Mr. Mak and his affiliates to invest in any business engaged in the provision of vehicles sales, spare parts, maintenance services and customer survey services to manufacturers or suppliers in respect of the "Lexus" and "FAW Toyota" brands in the PRC, and for any other brands in the PRC, Denker Investment and Mr. Mak will notify Delight Star prior to such investments being made, as long as Delight Star remains a shareholder of either 4S Target Company. Delight Star shall have a right of first refusal to acquire any disposal of other existing businesses already owned and operated by Mr. Mak or Denker Investment in the PRC, at a reasonable price to be offered by Denker Investment or Mr. Mak. Such price shall be equal to or lower than the price to be offered by Denker Investment or Mr. Mak to a prospective purchaser if Delight Star refuses to acquire such existing businesses.

Denker Investment and Mr. Mak have undertaken to Delight Star, and Delight Star and the Company have undertaken to Denker Investment, that they shall not, amongst others, carry on or have an interest in businesses engaged in the provision of vehicles sales, spare parts, maintenance services and customer survey services in respect of the "FAW Toyota" brand in Guangzhou and Foshan, the PRC and "Lexus" brand in Guangzhou, the PRC or any other business as may be carried on by the 4S Target Group from time to time, during a term of three years from the date of which Denker Investment and Delight Star (as the case may be) ceases to be a shareholder of the relevant 4S Target Company.

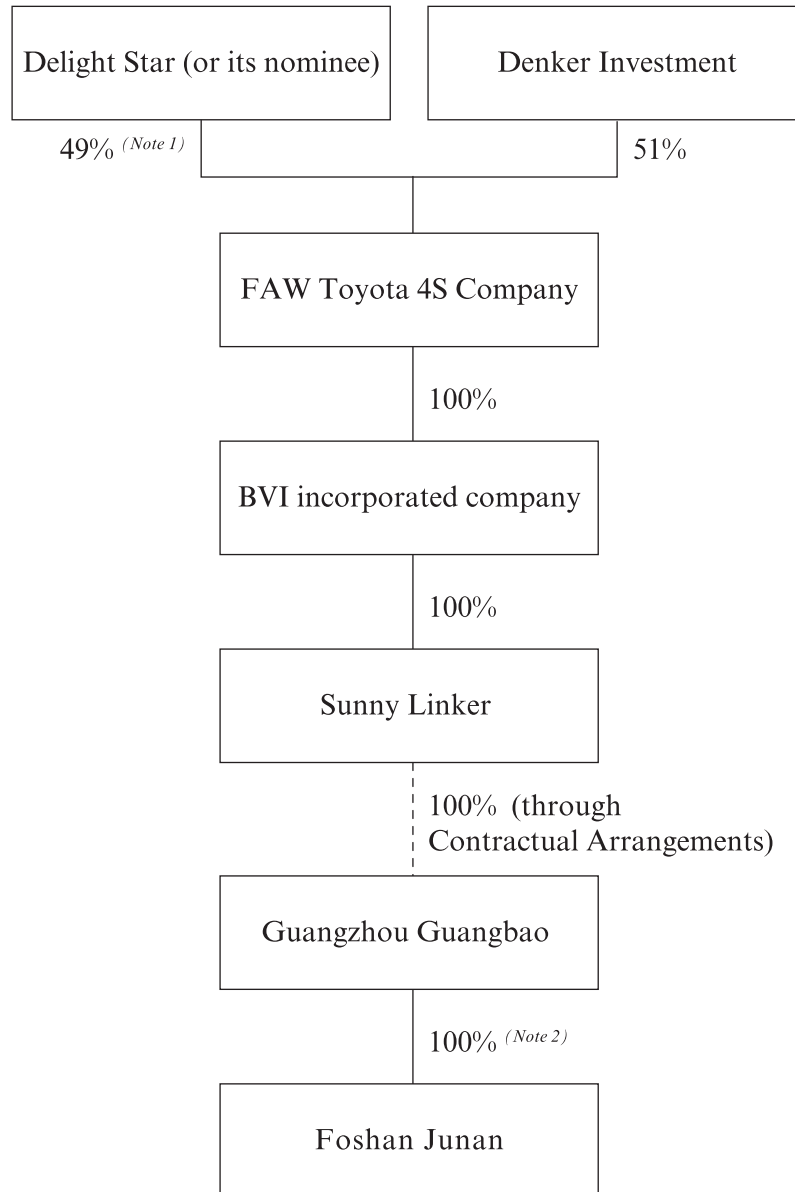
The existing guarantees in favour of the 4S Target Companies shall be replaced by replacement guarantees to be provided by Delight Star and Denker Investment after 4S Completion. It is expected that such replacement guarantees will not exceed HK\$80,000,000. Each of Denker Investment and Delight Star shall contribute to additional funding needs of the 4S Target Companies by way of equity or loan in proportion to their existing interests in the 4S Target Companies for working capital

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purpose (including the establishment or acquisition of two additional dealerships in respect of the “FAW Toyota” brand in the PRC). It is expected that these additional funding to be contributed by Delight Star will not exceed HK\$100,000,000.

Structure charts of the 4S Target Groups upon 4S Completion:

FAW Toyota 4S Group

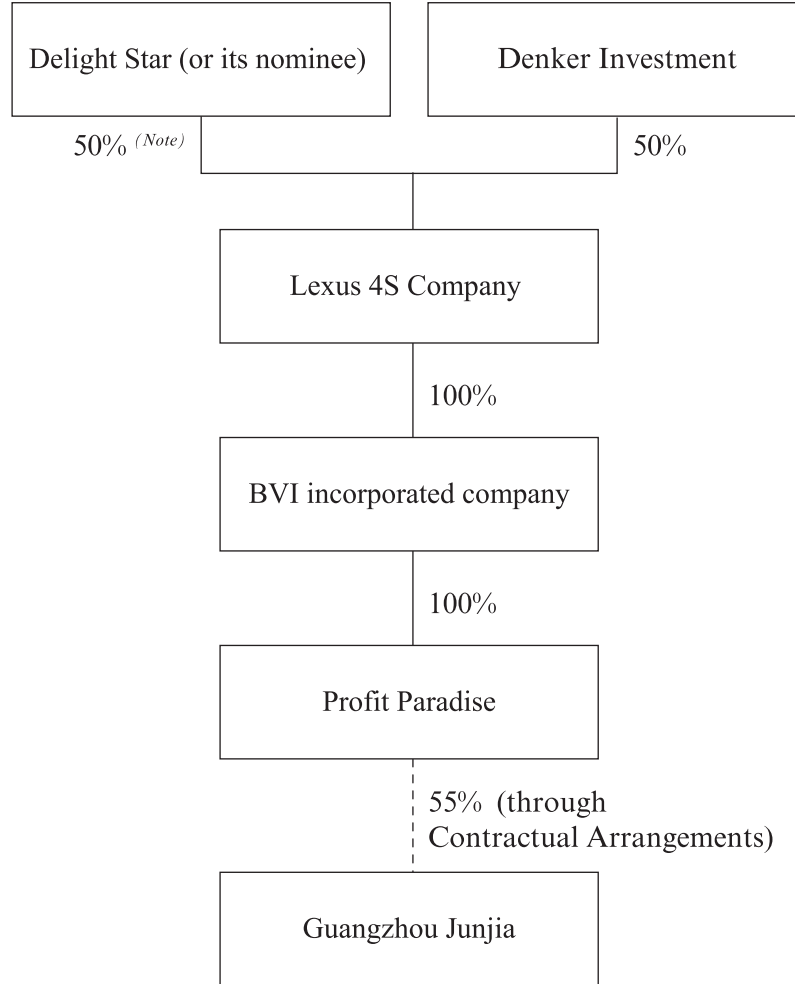


Note 1: Delight Star is entitled to 50% economic interest of FAW Toyota 4S Company after 4S Completion.

Note 2: Up to a 6.66% interest in Foshan Junan will be held by Guangzhou Guangbao either through its wholly-owned subsidiary or through the Contractual Arrangements. Please refer to the section headed “Contractual Arrangements — *Foshan Junan*” for details.

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Lexus 4S Group



Note: Delight Star is entitled to 50% economic interest of Lexus 4S Company after 4S Completion.

Contractual Arrangements

Guangzhou Guangbao

Upon 4S Completion, Guangzhou Guangbao, one of the major assets of FAW Toyota 4S Company, is to be held as to 51% by Mr. Mak and 49% by a wholly-owned subsidiary of the Company in the PRC (the “**DCH Subsidiary**”) for the benefits of FAW Toyota 4S Group through a series of Contractual Arrangements implemented by FAW Toyota 4S Group prior to the conversion of Guangzhou Guangbao into a wholly-owned foreign enterprise, the conversion of which is expected to take a certain period of time. Such Contractual Arrangements are fundamental to the legal structure and business operations of the FAW Toyota 4S Group and are specifically designed for the purpose of allowing FAW Toyota 4S Group (a) to enjoy all the economic benefits of Guangzhou Guangbao, to exercise management control over the operations of Guangzhou Guangbao and to prevent leakages of assets and values to the registered owners of Guangzhou Guangbao; and (b) to acquire, if and when permitted by PRC

LETTER FROM THE BOARD

law, the equity interests in Guangzhou Guangbao at the minimum transfer price permitted under the relevant PRC laws and regulations. Guangzhou Guangbao is in the process of converting into a company which can be wholly owned by foreign enterprises and upon completion of such conversion, the Contractual Arrangements for Guangzhou Guangbao will be converted into direct equity interests to be directly owned by Sunny Linker, the immediate holding company of Guangzhou Guangbao.

Brief summary of the Contractual Arrangements Agreements for Guangzhou Guangbao are as follows:

(i) Shareholding

Each of Mr. Mak and DCH Subsidiary will be registered as the legal shareholders of Guangzhou Guangbao.

(ii) Management

Each of Mr. Mak and DCH Subsidiary shall consult and follow the instructions of Sunny Linker, when he/it is involved in the management and exercise of its right as the shareholder of Guangzhou Guangbao, such rights shall include and without limitation to voting at the shareholders or board meetings (through their respective nominated director), appointing directors and making decisions in respect of the operation and financial issues of Guangzhou Guangbao.

(iii) Dividends

All the dividends, capital bonus or any other assets distributed to Mr. Mak or DCH Subsidiary by Guangzhou Guangbao shall be transferred to Sunny Linker or any other party nominated by Sunny Linker at nil consideration within three working days after such distribution.

(iv) Option to purchase

Sunny Linker shall have an option to purchase (or nominate a third party to purchase) all the interests of Mr. Mak and DCH Subsidiary in Guangzhou Guangbao at the minimum transfer price permitted under the relevant PRC laws and regulations. Where the PRC laws or regulations require the consideration for such transfer to be at the market value, the said consideration shall be transferred to Sunny Linker (or any third party nominated by Sunny Linker) at nil consideration within three business days after Mr. Mak or DCH Subsidiary (as the case may be) received such payment. Upon exercising such option, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

LETTER FROM THE BOARD

(v) Option to pledge

Sunny Linker shall have an option to request Mr. Mak and DCH Subsidiary to pledge all their respective shareholding in Guangzhou Guangbao to Sunny Linker or any other party nominated by Sunny Linker, so as to guarantee the performance of obligations of Mr. Mak or DCH Subsidiary (as the case may be) and Guangzhou Guangbao and the performance of obligations under any other agreements which may be entered into between Mr. Mak or DCH Subsidiary (as the case may be), Guangzhou Guangbao and Sunny Linker or any other party nominated by Sunny Linker. In the event that Sunny Linker exercises such rights, Mr. Mak or DCH Subsidiary (as the case may be) and/or Guangzhou Guangbao shall assist unconditionally and enter into a relevant share pledge agreement with Sunny Linker or any other party nominated by Sunny Linker.

(vi) Option to enter into management, consultancy agreements

Sunny Linker shall have an option to request Mr. Mak and DCH Subsidiary to instruct Guangzhou Guangbao to enter into any exclusive service or consultancy agreement with Sunny Linker or any other party nominated by Sunny Linker in respect of management, technical or other types of services, and Sunny Linker or any other party nominated by Sunny Linker shall provide the relevant service to Guangzhou Guangbao. The relevant service fees shall be paid by Guangzhou Guangbao, the amount of which shall be solely determined by Sunny Linker or any other party nominated by Sunny Linker and may be adjusted from time to time.

Upon entering into of such management or consultancy agreement, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

Foshan Junan

As at the date of the announcement of the Company dated 26 August 2008, a 93.34% interest in Foshan Junan is directly held by Guangzhou Guangbao and the remaining 6.66% interest is held by an individual (the “**Individual**”) who is an independent third party. Such 6.66% interest will be transferred to Guangzhou Guangbao and/or its wholly-owned subsidiary before 4S Completion. If the said transfer cannot be completed before 4S Completion due to the restrictions of the local PRC laws and regulations, Guangzhou Guangbao will acquire the maximum equity interests in Foshan Junan permitted under the local PRC laws and regulations and the remaining interests in Foshan Junan will either continue to be held by the Individual or to be transferred to a wholly-owned subsidiary of the Company in the PRC (the “**PRC Subsidiary**”). In any event, the remaining interests will be held by the Individual or the PRC Subsidiary for the benefits of FAW Toyota 4S Group through a series of Contractual Arrangements implemented by FAW Toyota 4S Group.

Such Contractual Arrangements are fundamental to the legal structure and business operations of the FAW Toyota 4S Group and are specifically designed for the purpose of allowing FAW Toyota 4S Group (a) to enjoy all the economic benefits of

LETTER FROM THE BOARD

Foshan Junan, to exercise management control over the operations of Foshan Junan and to prevent leakages of assets and values to the registered owner of Foshan Junan; and (b) to acquire, if and when permitted by PRC law, the equity interests in Foshan Junan at the minimum transfer price permitted under the relevant PRC laws and regulations.

Brief summary of the Contractual Arrangements Agreements for Foshan Junan are as follows:

(i) Shareholding

The Individual or the PRC Subsidiary will be registered as the legal shareholder of Foshan Junan.

(ii) Management

The Individual or the PRC Subsidiary (as the case may be) shall consult and follow the instructions of Guangzhou Guangbao, when she/it is involved in the management and exercise of her/its right as the shareholder of Foshan Junan, such rights shall include and without limitation to voting at the shareholders or board meetings (through their respective nominated director), appointing directors and making decisions in respect of the operation and financial issues of Foshan Junan.

(iii) Dividends

All the dividends, capital bonus or any other assets distributed to the Individual or the PRC Subsidiary (as the case may be) by Foshan Junan shall be transferred to Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao at nil consideration within three working days after such distribution.

(iv) Option to purchase

Guangzhou Guangbao shall have an option to purchase (or nominate a third party to purchase) all the interests of the Individual or the PRC Subsidiary (as the case may be) in Foshan Junan at the minimum transfer price permitted under the relevant PRC laws and regulations. Where the PRC laws or regulations require the consideration for such transfer to be at the market value, the said consideration shall be transferred to Guangzhou Guangbao (or any third party nominated by Guangzhou Guangbao) at nil consideration within three business days after the Individual or the PRC Subsidiary (as the case may be) received such payment. Upon exercising such option, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

LETTER FROM THE BOARD

(v) Option to pledge

Guangzhou Guangbao shall have an option to request the Individual or the PRC Subsidiary (as the case may be) to pledge all her/its shareholding in Foshan Junan to Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao, so as to guarantee the performance of obligations of the Individual or the PRC Subsidiary (as the case may be) and Foshan Junan and the performance of obligations under any other agreements which may be entered into between the Individual or the PRC Subsidiary (as the case may be), Foshan Junan and Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao. In the event that Guangzhou Guangbao exercises such rights, the Individual or the PRC Subsidiary (as the case may be) and/or Foshan Junan shall assist unconditionally and enter into a relevant share pledge agreement with Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao.

(vi) Option to enter into management, consultancy agreements

Guangzhou Guangbao shall have an option to request the Individual or the PRC Subsidiary (as the case may be) to instruct Foshan Junan to enter into any exclusive service or consultancy agreement with Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao in respect of management, technical or other types of services, and Guangzhou Guangbao or any other party nominated by Guangzhou Guangbao shall provide the relevant service to Foshan Junan. The relevant service fees shall be paid by Foshan Junan, the amount of which shall be solely determined by Guangzhou Guangbao, or any other party nominated by Guangzhou Guangbao and may be adjusted from time to time.

Upon entering into of such management or consultancy agreement, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

Guangzhou Junjia

Guangzhou Junjia, the major asset of Lexus 4S Company, is also held by Mr. Mak for the benefits of Lexus 4S Group through the Contractual Arrangements. Such Contractual Arrangements are fundamental to the legal structure and business operations of the Lexus 4S Group and are specifically designed for the purpose of allowing Lexus 4S Group (a) to enjoy all the economic benefits of Guangzhou Junjia held by Mr. Mak, to exercise management control over the operations of Guangzhou Junjia and to prevent leakages of assets and values to the registered owner of Guangzhou Junjia (i.e. Mr. Mak); and (b) to acquire, if and when permitted by PRC law, the equity interests in Guangzhou Junjia at the minimum transfer price permitted under the relevant PRC laws and regulations. It is intended that Guangzhou Junjia will be converted into a sino-foreign equity joint venture company which is expected to take a certain period of time and upon completion of such conversion, the Contractual Arrangements for Guangzhou Junjia will be converted into direct equity interests to be directly owned by Profit Paradise, the immediate holding company of Guangzhou Junjia.

LETTER FROM THE BOARD

Brief summary of the Contractual Arrangements Agreements for Mr. Mak's 55% interest in Guangzhou Junjia are as follows:

(i) Shareholding

Mr. Mak will be registered as the legal shareholder of Guangzhou Junjia.

(ii) Management

Mr. Mak shall consult and follow the instructions of Profit Paradise, when he is involved in the management and exercise of his right as the shareholder of Guangzhou Junjia, such rights shall include and without limitation to voting at the shareholders or board meetings (through his nominated director), appointing directors and making decisions in respect of the operation and financial issues of Guangzhou Junjia.

(iii) Dividends

All the dividends, capital bonus or any other assets distributed to Mr. Mak by Guangzhou Junjia shall be transferred to Profit Paradise or any other party nominated by Profit Paradise at nil consideration within three working days after such distribution.

(iv) Option to purchase

Profit Paradise shall have an option to purchase (or nominate a third party to purchase) all the interests of Mr. Mak in Guangzhou Junjia at the minimum transfer price permitted under the relevant PRC laws and regulations. Where the PRC laws or regulations require the consideration for such transfer to be at the market value, the said consideration shall be transferred to Profit Paradise (or any third party nominated by Profit Paradise) at nil consideration within three business days after Mr. Mak received such payment. Upon exercising such option, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

(v) Option to pledge

Profit Paradise shall have an option to request Mr. Mak to pledge all his shareholding in Guangzhou Junjia to Profit Paradise or any other party nominated by Profit Paradise, so as to guarantee the performance of obligations of Mr. Mak and Guangzhou Junjia and the performance of obligations under any other agreements which may be entered into between Mr. Mak, Guangzhou Junjia and Profit Paradise or any other party nominated by Profit Paradise. In the event that Profit Paradise exercises such rights, Mr. Mak and/or Guangzhou Junjia shall assist unconditionally and enter into a relevant share pledge agreement with Profit Paradise or any other party nominated by Profit Paradise.

LETTER FROM THE BOARD

(vi) Option to enter into management, consultancy agreements

Profit Paradise shall have an option to request Mr. Mak to instruct Guangzhou Junjia to enter into any exclusive service or consultancy agreement with Profit Paradise or any other party nominated by Profit Paradise in respect of management, technical or other types of services, and Profit Paradise or any other party nominated by Profit Paradise shall provide the relevant service to Guangzhou Junjia. The relevant service fees shall be paid by Guangzhou Junjia, the amount of which shall be solely determined by Profit Paradise or any other party nominated by Profit Paradise and may be adjusted from time to time.

Upon entering into of such management or consultancy agreement, the Company and CITIC Pacific shall comply with the Listing Rules as appropriate.

(vii) Compensation

In the event of any breach of the Contractual Arrangements Agreement for Guangzhou Junjia by Mr. Mak, Mr. Mak shall pay a compensation to Profit Paradise. The amount of the compensation shall be the higher of (i) 55% of the net asset value of Guangzhou Junjia at the time of the breach or the fair market value of 55% of the registered capital in Guangzhou Junjia (whichever is higher), which shall be determined by an independent third party valuer appointed by Profit Paradise; and (ii) any actual loss incurred by Profit Paradise.

The PRC legal advisers of the Company have issued a legal opinion confirming that the Contractual Arrangements Agreements do not contravene any existing PRC laws, rules and regulations. However, there can be no assurance that the relevant governmental authority will not challenge the validity of the Contractual Arrangements or the governmental authorities in the PRC will not promulgate laws or regulations to invalidate such Contractual Arrangements in the future.

Information about the 4S Target Group

As at 31 July 2008, the unaudited net asset value attributable to Guangzhou Guangbao, Foshan Junan and Guangzhou Junjia was approximately HK\$36,500,000, HK\$7,400,000 and HK\$89,400,000, respectively. Foshan Junan commenced its operations since December 2007.

LETTER FROM THE BOARD

For the financial years ended 31 December 2006 and 2007, the audited net profit/loss (both before and after taxation and extraordinary items) attributable to Guangzhou Guangbao, Foshan Junan and Guangzhou Junjia were approximately as follows:

	Audited net profit/(loss)		Audited net profit/(loss)	
	before taxation and		after taxation and	
	extraordinary items		extraordinary items	
	2006	2007	2006	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guangzhou Guangbao	3,300	9,500	600	4,200
Foshan Junan <i>(operations commenced since December 2007)</i>	—	(300)	—	(300)
Guangzhou Junjia	30,700	75,900	19,000	51,700

The investment amount of Guangzhou Guangbao, Foshan Junan and Guangzhou Junjia as at 31 July 2008 by Denker Investment and Mr. Mak was approximately HK\$87,000,000, comprising (i) the total amount of the registered capitals of Guangzhou Guangbao, Foshan Junan and Guangzhou Junjia; and (ii) the shareholders loans to these companies as at 31 July 2008.

Reasons for and Benefits of the 4S Acquisition and the Financial Assistance

The Directors consider that the 4S Target Group, as managed and operated by Mr. Mak, has a competitive edge over its competitors in the relevant brands due to its long established history of over 10 years, its financial track record and Mr. Mak's standing in this industry in the PRC and Hong Kong. Of the 4S Target Group, to the best knowledge of the Directors, Guangzhou Guangbao was a top 10 dealership in "FAW Toyota" brand in terms of sales in the PRC for the year 2007 and Guangzhou Junjia was named the top 3 outstanding dealerships in the "Lexus" brand in the PRC for the year 2007. In April 2008, the Company and Mr. Mak formed two joint venture companies to provide services relating to vehicles sales, spare parts, maintenance services and customer survey services in respect of the "Lexus" brand in Shanghai and Ningbo, the PRC.

The transactions contemplated under the 4S Acquisition Agreement do not only allow the Group to acquire the 4S Target Group (including Guangzhou Guangbao, Guangzhou Junjia and a newly completed dealership, Foshan Junan). They also provide an opportunity for the Group to share in the interests of two additional dealerships in respect of the "FAW Toyota" brand in the PRC to be established or acquired. They also further enhance the strategic partnership with Mr. Mak, provide a good opportunity to strengthen the Group's multi-brand portfolio and allow the Group to further develop motor vehicle dealing business in the PRC. Furthermore, the Directors believe that there is an increasing demand for high-end and luxurious

LETTER FROM THE BOARD

products in the PRC and leveraging on the famous and established brand-names, “FAW Toyota” and “Lexus”, the transactions contemplated under the 4S Acquisition Agreement also enable the Group to benefit from this increasing demand in the PRC automobile industry.

Effect on the Earnings and Assets and Liabilities of the Company in relation to the 4S Acquisition and the Financial Assistance

Upon the 4S Completion, the 4S Target Group will be accounted for as subsidiaries of the Company. The Group’s cash and bank balance will be reduced by HK\$143,716,000; however, the net assets acquired of the Established Group will not be less than HK\$63,786,420, plus intangible assets and goodwill arising from this acquisition, value of each is subject to independent valuation. Another HK\$41,040,000 is for the set up costs and future prospects of the newly completed dealership, Foshan Junan; establishment or acquisition of two additional dealerships in respect of the “FAW Toyota” brand in the PRC as undertaken by Denker Investment and Mr. Mak; and goodwill and future prospects of the 4S Target Group to expand and to acquire additional dealerships in the future.

In view of the financial track record of the Established Group, plus the profit guarantee by Denker Investment and Mr. Mak, the 4S Acquisition is expected to have a positive impact on the earnings of the Group in the foreseeable future.

The consideration for the 4S Acquisition at HK\$143,716,000 plus the additional funding not exceeding HK\$100,000,000 will be funded by internal resources of the Group. There will be an increase in the gearing ratio as a result of the 4S Acquisition and the Financial Assistance, but it is expected that there will be no material adverse impact on the liquidity of the Group.

Listing Rules Implications

As the relevant percentage ratios under the Listing Rules in respect of the 4S Acquisition and the Financial Assistance are more than 5% but less than 25% for the Company, the 4S Acquisition and the Financial Assistance constitute discloseable transactions for the Company under the Listing Rules. As Denker Investment is a substantial shareholder and Mr. Mak is a director of various subsidiaries of the Company, Denker Investment and Mr. Mak are connected persons of the Company. The 4S Acquisition and the Financial Assistance, therefore, also constitute connected transactions for the Company. The 4S Acquisition and the Financial Assistance are subject to the reporting, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules.

Independent Shareholders’ Approval

According to Rule 14A.43 of the Listing Rules, where independent shareholders’ approval of a connected transaction is required, under certain conditions the Stock Exchange may accept that approval of the independent shareholders be given by a resolution in writing, instead of one passed at a shareholders’ meeting. Those

LETTER FROM THE BOARD

conditions are that: (a) no shareholder of the listed issuer is required to abstain from voting if the Company were to convene a general meeting for the approval of the connected transaction; and (b) the written independent shareholders' approval has been obtained from a shareholder or closely allied group of shareholders who (together) hold more than 50% in nominal value of the securities giving the right to attend and vote at the general meeting to approve the connected transaction.

As at 2 September 2008, nine wholly-owned subsidiaries of CITIC Pacific, a closely allied group of the Shareholders, together beneficially interested in 1,018,800,000 shares representing approximately 56.67% of the issued share capital of the Company.

Each of Denker Investment and Mr. Mak has confirmed that it/he has no interest in any share of the Company giving the right to attend and vote at general meetings of the Company.

Since, to the best knowledge of the Directors, none of the Shareholders is required to abstain from voting on the 4S Acquisition and the Financial Assistance, written approvals of the said nine wholly-owned subsidiaries of CITIC Pacific have been obtained for the purpose of approving the 4S Acquisition and the Financial Assistance in lieu of an approval from the Independent Shareholders of the Company at a shareholders' meeting pursuant to Rule 14A.43 of the Listing Rules.

An application has been made by the Company to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with the requirement to hold a shareholders' meeting to approve the 4S Acquisition and the Financial Assistance on the basis of a written independent shareholders' approval given in accordance with Rule 14A.43 of the Listing Rules.

Recommendation regarding the 4S Acquisition and the Financial Assistance

Your attention is drawn to the letter from the Independent Board Committee set out on pages 27 to 28 in this Circular which contains its recommendation to the Independent Shareholders in relation to the 4S Acquisition and the Financial Assistance.

Your attention is also drawn to the letter from the Independent Financial Adviser, for incorporation into this Circular, which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the 4S Acquisition and the Financial Assistance and the principal factors and reasons considered by it.

The Directors (including the independent non-executive Directors whose views have been set out in this Circular after taking into account the advice of the Independent Financial Adviser) consider that the 4S Acquisition and the Financial Assistance are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Shareholders as a whole. Accordingly, the Directors (including the independent non-executive Directors)

LETTER FROM THE BOARD

recommend the Independent Shareholders to support, and if a physical shareholders' meeting was to be held, to vote in favour of, the 4S Acquisition and the Financial Assistance.

(2) DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF GUANGDONG VICTORY

GV Acquisition Agreement

Date: 26 August 2008

Parties:

- (i) Purchaser: Regent Link (a wholly-owned subsidiary of the Company)
- (ii) Seller: Anping, a company which engages in investment holding and trading of small electrical appliances
- (iii) Seller's Guarantor: Mr. Chan, who will guarantee the due performance by Anping of all its obligations under the GV Acquisition Agreement

Anping is a 20% associated company of the Group. The remaining 80% attributable interest in Anping is owned as to 65% by a company controlled by Mr. Chan and his associates and as to 15% by an independent third party. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Anping, its ultimate beneficial owners and Mr. Chan is a third party independent of the Company and its connected persons.

Assets to be acquired:

(i) the GV Sale Shares, representing the entire issued share capital of Silver Precious; and (ii) the GV Debt at book value of HK\$75,381,247. There is no restriction on subsequent disposal of the GV Sale Shares.

Silver Precious is an investment holding company of the GV Target Group, of which Guangdong Victory is the only operating subsidiary. Guangdong Victory is principally engaged in the manufacturing of small electrical appliances in the PRC, focusing in producing electrical kettle and non-stick kitchenware for worldwide brands covering European, North American, Australian and New Zealand markets. Supported by its research and development capability, Guangdong Victory, in addition to the original equipment manufacturing business, has also started its original design manufacturing business, which, as the Directors considered, has greater market potential with higher margin.

LETTER FROM THE BOARD

Set out below is the audited financial information of Guangdong Victory for the two years ended 31 December 2007:

	Audited net profit/(loss) before taxation		Audited net profit/(loss) after taxation	
	2006	2007	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Guangdong Victory	(2,610)	(16,424)	(2,610)	(16,424)

As at 31 December 2007, the audited net asset value of Guangdong Victory was RMB56,839,000.

Consideration:

The consideration of HK\$66,920,000 for acquiring the GV Sale Shares was arrived at after arm's length negotiation between Regent Link and Anping with reference to the audited net asset value of Guangdong Victory as at 31 December 2007 and assessment of the fair value of the assets and the business potentials of Guangdong Victory. The consideration for acquiring the GV Debt was equal to its book value of HK\$75,381,247. The total consideration for the GV Acquisition was fully settled by Regent Link upon GV Completion and were funded by internal resources of the Group.

Completion:

GV Completion took place on 29 August 2008 and thereafter, Silver Precious has become a wholly-owned subsidiary of the Company.

Reasons for and Benefits of the GV Acquisition

The GV Acquisition enables the Group to expand its business from its mainly mid-stream business (namely, distribution and marketing) into up-stream business (namely, manufacturing). It widens the Group's revenue sources and allows the Group a distribution channel to further capture the overseas market and to explore the vast business potential of small home electrical appliance market in China, as well as maintains growth and return to the Shareholders.

The Directors are of the view that the terms of the GV Acquisition Agreement are fair and reasonable and in the interests of the Shareholders as a whole.

Post-completion Continuing Connected Transaction

Pursuant to a pre-existing agency agreement dated 1 August 2008 between Anping and Guangdong Victory (the "Agency Agreement"), Anping has agreed to act as the selling agent for Guangdong Victory for a term of 6 months commencing from the date of the Agency Agreement. Under the Agency Agreement, goods of Guangdong Victory are sold to Anping with a credit term of 60 days at such prices as may be mutually

LETTER FROM THE BOARD

agreed by the parties provided that such prices shall not be lower than the prevailing market prices or, if there are no such market prices, those prices that are offered by Guangdong Victory to other third parties. As at 15 August 2008, an amount of RMB15,432,738 was owed by Anping to Guangdong Victory pursuant to the Agency Agreement.

Mr. Chan, prior to GV Completion, was and, after GV Completion, remains to be a director of Guangdong Victory. After GV Completion, Guangdong Victory has become a wholly-owned subsidiary of the Company and, therefore, both Mr. Chan and Anping (being an associate of Mr. Chan) have become connected persons of the Company. As a result, transactions contemplated under the Agency Agreement have become continuing connected transactions for the Company post-GV Completion. The Directors, including the independent non-executive Directors, consider that such transactions will facilitate the selling of goods of Guangdong Victory, and that the terms of the Agency Agreement are on normal commercial terms, and are fair and reasonable and in the interests of the Group and the Shareholders as a whole.

It is expected that the maximum annual caps for the period from the date of GV Completion to 31 December 2008 and the period from 1 January 2009 to 31 January 2009 will not exceed HK\$90,000,000 and HK\$20,000,000 respectively.

Effect on the Earnings and Assets and Liabilities of the Company in relation to the GV Acquisition

The total consideration for GV Acquisition is HK\$142,301,247, of which HK\$66,920,000 is for acquiring the GV Sale Shares which is close to the fair value of the net assets and the business potentials of Guangdong Victory, HK\$75,381,247 is for acquiring the GV Debt which was equal to the book value of the GV Debt. The GV Acquisition will not have material impact to the net assets of the Group.

In view of the synergy effect to the Group, as well as the business potential of Guangdong Victory in both the overseas and the PRC markets, the GV Acquisition is expected to have positive impact on the earnings of the Group.

The total consideration for the GV Acquisition was funded by internal resources of the Group and it is not expected there will be any material adverse impact on the liquidity of the Group.

Listing Rules Implications

As the relevant percentage ratios under the Listing Rules in respect of the GV Acquisition are more than 5% but less than 25% for the Company, the GV Acquisition constitutes a discloseable transaction for the Company under the Listing Rules.

LETTER FROM THE BOARD

III. GENERAL

The Group is a diversified business conglomerate in motor vehicles sales, motor vehicle related business and services, sales of food and consumer products, as well as logistics services, supported by integrated distribution platforms and a well-established base and network in the PRC, Hong Kong and Macao.

IV. ADDITIONAL INFORMATION

Your attention is also drawn to the general information set out in the appendix to this Circular.

Yours faithfully,
By order of the Board
Dah Chong Hong Holdings Limited
Hui Ying Bun
Chairman



大昌行集團有限公司
DAH CHONG HONG HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 01828)

16 September 2008

To the Independent Shareholders,

Dear Sir or Madam,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF A 49% INTEREST IN FAW TOYOTA 4S COMPANY AND
A 50% INTEREST IN LEXUS 4S COMPANY
AND THE RELATED SHAREHOLDERS' LOANS**

We refer to the letter from the Board set out in the circular dated 16 September 2008 (the "Circular") of which this letter forms part. Capitalised terms defined in the Circular shall have the same meaning when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the 4S Acquisition and the Financial Assistance and to advise the Independent Shareholders as to the fairness and reasonableness of the 4S Acquisition and the Financial Assistance and to recommend whether or not the Independent Shareholders should approve the 4S Acquisition and the Financial Assistance. Commerzbank has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation to the terms of the 4S Acquisition and the Financial Assistance.

RECOMMENDATION

We wish to draw your attention to the letter from the Board and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the 4S Acquisition and the Financial Assistance as set out in the Circular.

Having taken into account principal factors and reasons considered by and the opinion of Commerzbank as stated in its letter of advice, we consider the terms of the 4S Acquisition and the Financial Assistance to be fair and reasonable so far as the interests of the Independent Shareholders are concerned and to be in the interests of the Company and the

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Shareholders as a whole. We therefore recommend the Independent Shareholders to support, and if a physical shareholders' meeting was to be held, to vote in favour of, the 4S Acquisition and the Financial Assistance.

Yours faithfully,
Independent Board Committee of
DAH CHONG HONG HOLDINGS LIMITED
Cheung Kin Piu, Valiant
Hsu Hsung, Adolf
Yeung Yue Man
Independent Non-executive Directors

COMMERZBANK 

Commerzbank AG Hong Kong Branch

21st Floor, The Hong Kong Club Building
3A Chater Road, Central
Hong Kong

16 September 2008

*To: the independent board committee and
the independent shareholders of the Company*

Dear Sirs,

**DISCLOSEABLE AND CONNECTED TRANSACTION
ACQUISITION OF A 49% INTEREST IN FAW TOYOTA 4S COMPANY AND
A 50% INTEREST IN LEXUS 4S COMPANY AND
THE RELATED SHAREHOLDERS' LOANS**

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms of the 4S Acquisition (including the Financial Assistance), details of which, among other things, are set out in the circular dated 16 September 2008 (the "Circular"), of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context requires otherwise.

On 26 August 2008, the Company, through its wholly-owned subsidiaries, Delight Star (as the purchaser) entered into the 4S Acquisition Agreement with Denker Investment (as the vendor) and Mr. Mak (as the guarantor). Pursuant to the 4S Acquisition Agreement, Delight Star (or its nominee) will (i) acquire 49% of the issued share capital of FAW Toyota 4S Company; (ii) acquire 50% of the issued share capital of Lexus 4S Company; and (iii) accept the assignment of the shareholders' loans owed by FAW Toyota 4S Company and Lexus 4S Company to Denker Investment and Mr. Mak (and/or their respective associates) upon 4S Completion, at the aggregate consideration of HK\$143,716,000 (the "Consideration"). In addition, it is also agreed that after 4S Completion, Delight Star and Denker Investment will jointly provide (i) replacement guarantees in a sum of not more than HK\$80.0 million for purpose of replacing the existing guarantees in favour of FAW Toyota 4S Company and Lexus 4S Company and (ii) additional funding to both FAW Toyota 4S Company and Lexus 4S Company by way of equity or shareholders' loans in an amount proportion to their then interest in each of FAW Toyota 4S Company and Lexus 4S Company. It is expected that such additional funding to be contributed by the Group will be not more than HK\$100.0 million. Furthermore, through the Contractual Arrangements, Delight Star will be entitled to enjoy 50% economic interest in each of FAW Toyota 4S Company and Lexus 4S Company after 4S Completion.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

By virtue of Mr. Mak and Denker Investment, being the director and substantial shareholder of certain subsidiaries of the Company, respectively, Mr. Mak and Denker Investment are both connected persons (as defined under the Listing Rules) of the Company. Accordingly, the 4S Acquisition (including the Financial Assistance) constitutes a connected transaction for the Company. As the relevant percentage ratios (as defined under the Listing Rules) in respect of the 4S Acquisition (including the Financial Assistance) are more than 5% but less than 25%, the 4S Acquisition (including the Financial Assistance) is a discloseable and non-exempted connected transaction for the Company which is subject to the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

As disclosed in the Circular, no Shareholder is required to abstain from voting in relation to the relevant resolutions approving the 4S Acquisition (including the Financial Assistance). Given that a written approval from nine wholly-owned subsidiaries of CITIC Pacific, being a closely allied group of Shareholders, who together are beneficially interested in 1,018,800,000 Shares, representing approximately 56.67% of the issued share capital of the Company, has been obtained by the Company approving the 4S Acquisition (including the Financial Assistance) as at the Latest Practicable Date, an application has been made by the Company to the Stock Exchange for and the Stock Exchange has granted a waiver from strict compliance with the requirement for the Company to hold a shareholders' meeting in accordance with Rule 14A.43 of the Listing Rules.

The Independent Board Committee, comprising all of the independent non executive Directors, namely Mr. Cheung Kin Piu, Valiant, Mr. Hsu Hsung, Adolf and Professor Yeung Yue Man, has been established to advise the Independent Shareholders as to the fairness and reasonableness of the 4S Acquisition (including the Financial Assistance). We, Commerzbank AG Hong Kong Branch, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the 4S Acquisition (including the Financial Assistance) and the terms of the 4S Acquisition Agreement as to whether (i) the 4S Acquisition (including the Financial Assistance) is conducted in the Company's ordinary and usual course of business and on normal commercial terms; and (ii) the terms of the 4S Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

In formulating our recommendation, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things, (i) the Circular; (ii) the 4S Acquisition Agreement; (iii) the Company's prospectus dated 4 October 2007 (the "Prospectus"); (iv) the relevant financial information of the 4S Target Group provided by the Company; and (v) the annual report (the "Annual Report") of the Company covering the two years ended 31 December 2007 ("FY2006" and "FY2007") and its interim results announcement (the "Interim Results") covering the six months ended 30 June 2007 and 2008 ("1H2007" and "1H2008"), respectively. We have assumed that all information, opinions and representations contained or referred to in the Circular are true, complete and accurate in all material respects and we have relied on the same. Also, we have relied on the representations made by the Directors and the management of the Company that having made all reasonable enquiries and careful decisions, and to the best of their information, knowledge and belief, there is no other fact or representation or the omission of which

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

would make any statement contained in this Circular, including this letter, misleading. We have also assumed that all information, statements and representations made or referred to in the Circular, which have been provided to us by the Company, and for which it is wholly responsible, are true, complete and accurate in all material respects at the time they were made and continue to be so up to the date of despatch of the Circular.

We consider that we have (i) taken reasonable steps as required under Rule 13.80 of the Listing Rules in obtaining all necessary information from the Company; and (ii) reviewed sufficient information to enable us to reach an informed view regarding the 4S Acquisition (including the Financial Assistance) and to provide us with a reasonable basis for our recommendation. We have no reason to suspect that any material facts have been omitted or withheld, nor are we aware of any facts or circumstances, which would render the information and the representations made to us untrue, inaccurate or misleading. We have not, however, carried out any independent verification of the information provided by the Company; nor have we conducted any independent in-depth investigation into the business and affairs of the Company and their respective associates.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders in relation to the 4S Acquisition (including the Financial Assistance), we have taken into account the following principal factors:

1. Reasons for and benefits of the 4S Acquisition

(i) Background of the Group

The Group is a diversified business conglomerate principally engaged in three major business segments, namely (i) the motor vehicle sales, motor vehicle related business and services; (ii) the sales of food and consumer products; and (iii) the provision of logistics services, which are all supported by the Group's integrated distribution platforms and a well-established base and network in PRC, Hong Kong and Macao.

The Group has a long operating history of over 40 years in the automobile industry and has established the "Dah Chong Hong" brand name with significant market recognition on the Group's trading and distribution of automobiles and the quality of its services rendered. As at the Latest Practicable Date, the Group held distributorship for 10 brands of motor vehicles in Hong Kong and Macao (including Acura, Audi, Bentley, Honda, Isuzu, MAN, Nissan, Opel, Saab and UD Nissan Diesel). The Group is also the official distributor or dealer for 20 vehicle brands, including Bentley, Bugatti, BJ Hyundai, DF Honda, DF Nissan, DF Peugeot, DF Yuda Kia, FAW-Volkswagen Audi, FAW Mazda, FAW Toyota, GZ Honda, GZ Toyota, Haima, Isuzu, Kia, Mercedes Benz, Nissan, Qingling, Renault and SGM Buick and operates 35 4S outlets in 13 major cities in PRC, including Guangzhou, Kunming, and Shanghai. The Group's motor business has been the key contributor to its financial performance and the related revenue accounted for approximately 59.4%, 63.4% and 67.1% of the Group's total revenue for each FY2006, FY2007 and 1H2008,

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respectively. In recent years, the Group's motor business in PRC recorded substantial increase in revenue by approximately 43.0% from FY2006 to FY2007, accounting for approximately 33.5% of the Group's total revenue for FY2007 as compared with approximately 29.1% for FY2006.

Set out below is the summary of the Company results for FY2006, FY2007, 1H 2007 and 1H2008, respectively:

	FY2006		FY2007		1H2007		1H2008	
	<i>HK\$'</i>		<i>HK\$'</i>		<i>HK\$'</i>		<i>HK\$'</i>	
	<i>Million</i>	<i>%</i>	<i>Million</i>	<i>%</i>	<i>Million</i>	<i>%</i>	<i>Million</i>	<i>%</i>
Turnover:								
— Motor and motor related	7,684	59.4	10,175	63.4	4,313	61.7	6,387	67.1
— Food and consumer products	5,047	39.1	5,626	35.1	2,567	36.7	3,001	31.5
— Logistics	144	1.1	176	1.1	85	1.2	92	1.0
— Others	51	0.4	73	0.4	24	0.4	39	0.4
Total	12,926	100.0	16,050	100.0	6,989	100.0	9,519	100.0
Segment Profit								
— Motor and motor related	298	60.7	483	68.7	202	65.2	359	73.6
— Food and consumer products	101	20.6	149	21.2	63	20.3	88	18.0
— Logistics	11	2.2	17	2.4	10	3.2	8	1.6
— Others	81	16.5	54	7.7	35	11.3	33	6.8
Total	491	100.0	703	100.0	310	100.0	488	100.0

Source: The Annual Report and the Interim Results

(ii) Background of the 4S Target Companies

FAW Toyota 4S Company and Lexus 4S Company are investment holding companies and, through the Contractual Arrangements, are interested in 100% and 55% of Guangzhou Guangbao and Guangzhou Junjia, respectively. Guangzhou Guangbao and Guangzhou Junjia, being the operating subsidiaries of FAW Toyota 4S Company and Lexus 4S Company, respectively, are engaged in the provision of vehicle sales, spare parts, maintenance services and customer survey services in respect of the "FAW Toyota" brand in Guangzhou and Foshan, and the "Lexus" brand in Guangzhou, respectively. Guangzhou Guangbao also owns 100% equity interest in Foshan Junan (of which up to 6.66% interest will be held through its wholly-owned subsidiaries or accounted for through the Contractual Arrangements), a newly established PRC company engaged in the above-mentioned motor related business in respect of the "FAW Toyota" brand in Foshan and having commenced its operations since December 2007. Both FAW Toyota 4S Company and Lexus 4S Company are operated and managed by Mr. Mak.

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As disclosed in the section headed “Letter from the Board” of the Circular, Guangzhou Guangbao was awarded as one of the top 10 dealerships in “FAW Toyota” brand in terms of sales in PRC for 2007 and Guangzhou Junjia was named as one of the top 3 outstanding dealerships in PRC for 2007. Both companies recorded substantial improvement in their financial results for FY2007 which are summarised as follows:

	Guangzhou Guangbao <i>(HK\$'000)</i>	Foshan Junan <i>(HK\$'000)</i>	Guangzhou Junjia <i>(HK\$'000)</i>
Net profit/(loss) after taxation			
— FY2006	600	—*	19,000
— FY2007	4,200	(300)*	51,700
<i>% increment</i>	<i>600.0%</i>	<i>Not Applicable*</i>	<i>172.1%</i>
Net asset value as at 31 July 2008	36,500	7,400	89,400

* *Foshan Junan has commenced its operations only since December 2007*

(iii) Automobile Industry in Guangzhou, PRC

Guangzhou City is one of the major economic cities in PRC. According to the People’s Government of Guangzhou City, the regional gross domestic products of Guangzhou City amounted to approximately RMB606.8 billion (equivalent to approximately HK\$691.8 billion) in 2006, up by approximately 47.4% from 2004 (or a compound in annual growth rate (“CAGR”) of approximately 21.4%). The per capita annual consumption expenditure of Guangzhou City’s urban household also increased from RMB13,121 (equivalent to approximately HK\$14,958) in 2004 to RMB15,445 (equivalent to approximately HK\$17,607) in 2006, representing an increase of approximately 17.7% (or a CAGR of 8.5%). In addition, according to the National Bureau of Statistics of PRC, the number of privately owned cars in Guangdong Province increased from approximately 2.0 million in 2004 to approximately 3.0 million in 2006, representing an increase of approximately 50.0% (or a CAGR of approximately 22.5%).

Having considered (i) the satisfactory past track record and achievement of the 4S Target Group; (ii) the growing weight of the Group’s motor business in PRC; (iii) the Group’s development plan to strengthen its presence in PRC by forging strategic partnership and exploring merger and acquisition opportunities; and (iv) the growing economic condition in Guangzhou City and the continuous growing demand for motor vehicles in Guangdong Province, we are of the view that the 4S Acquisition will not only provide the Group with an opportunity to acquire the 4S Target Group (including Guangzhou Guangbao, Guangzhou Junjia and Foshan Junan, a newly completed dealership) and to obtain two additional dealerships in respect of the “FAW Toyota” brand in PRC by December 2010 (as detailed below), but will also strengthen the

Group's market position in motor vehicle sales business in Guangzhou and Foshan. Accordingly, we consider that the 4S Acquisition is in the ordinary and usual course of business of the Group.

2. Major Terms of the 4S Acquisition Agreement

4S Completion is subject to certain conditions precedents including, amongst others:

- (i) obtaining the regulatory approval and third party consents (including but not limited to the consent of relevant automobile manufacturers) required of Denker Investment for the 4S Acquisition;
- (ii) completion of the reorganisation of the 4S Target Group (including, amongst others, the entering into of the Contractual Arrangements Agreements for purpose of ensuring the Group to be entitled to 50% economic benefit in each of FAW Toyota 4S Company and Lexus 4S Company);
- (iii) the financial due diligence review performed by Delight Star on 4S Target Group to the Group's satisfaction;
- (iv) no material adverse change or development (including a prospective change or development), in the position or condition, financial or otherwise, of the 4S Target Group, or their respective earnings, business, assets or prospects prior to 4S Completion; and
- (v) the warranties given as at the date of the 4S Acquisition Agreement and immediately prior to 4S Completion remaining true, accurate and not misleading in all material respects.

As advised by the management of the Company, 4S Completion will take place in or around September 2008.

With a view to further safeguarding the Group's economic benefit derived from the future operations of 4S Target Group, the 4S Acquisition Agreement has the following additional provisions relating to the corporate structure and profitability of each of FAW Toyota 4S Company and Lexus 4S Company:

(i) Profit guarantee and the relevant compensation mechanism

Pursuant to the 4S Acquisition Agreement, Denker Investment and Mr. Mak have guaranteed that the aggregate of (i) 100% of the audited net profit after taxation of Guangzhou Guangbao (excluding Foshan Junan and any of its subsidiaries and investments) and (ii) 55% of the audited net profit after taxation of Guangzhou Junjia (excluding any of its subsidiaries and investments), for the period from 1 August 2008 to 31 December 2008 and each of the two years ending 31 December 2010 shall be no less than RMB12.9 million (equivalent to approximately HK\$14.7 million), RMB31.0 million (equivalent to approximately HK\$35.3 million) and RMB31.0 million (equivalent to approximately HK\$35.3 million), respectively (together, the

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“Guaranteed Profits”). The Guaranteed Profits will be audited by an independent certified public accountant in accordance with the generally accepted accounting principles in PRC and shall exclude any non-recurring or exceptional items and revaluation gains. In the event that the aggregate actual net profit after taxation from Guangzhou Guangbao and Guangzhou Junjia for the aforesaid period(s) is/are less than the Guaranteed Profits, 50% of such shortfall shall be indemnified by Denker Investment and Mr. Mak to Delight Star on a dollar-to-dollar basis in cash.

Mr. Mak will remain as the responsible person for the management and operations for each of FAW Toyota 4S Group and Lexus 4S Group during the period from 1 August 2008 to 31 December 2010.

(ii) Guaranteed net asset value and the relevant compensation mechanism

Each of Denker Investment and Mr. Mak has undertaken to the Company that, upon 4S Completion, the aggregate of 100% and 55% of the net asset value of Guangzhou Guangbao and Guangzhou Junjia (excluding any of their respective subsidiaries and investments), respectively, will be no less than approximately HK\$63.8 million (the “Guaranteed Net Asset Value”). In the event the actual net asset value of Guangzhou Guangbao and Guangzhou Junjia (excluding their respective subsidiaries and investments) attributable to the Group falls below the Guaranteed Net Asset Value, Denker Investment and Mr. Mak have undertaken that 50% of such shortfall shall be indemnified.

(iii) First right of refusal

Pursuant to the 4S Acquisition Agreement, so long as Delight Star remains a shareholder of either FAW Toyota 4S Company or Lexus 4S Company, either of FAW Toyota 4S Company and Lexus 4S Company will have a first right of refusal to invest at cost in respect of any new investment opportunities offered to Mr. Mak and his affiliates relating to the provision of vehicles sales, spare parts, maintenance services and customer survey services to manufacturers or suppliers under the “Lexus” and “FAW Toyota” brands in PRC. In the event that any other opportunity is made available to either FAW Toyota 4S Company or Lexus 4S Company in relation to other vehicle brands in PRC during the time when Delight Star remains the shareholder of either FAW Toyota 4S Company or Lexus 4S Company, Denker Investment and Mr. Mak will notify the Group prior to making such investment. Furthermore, Delight Star shall also have a right of first refusal to acquire any existing business in PRC already owned and operated by Mr. Mak or Denker Investment for disposal at a price equal to or lower than the price to be offered by Denker Investment or Mr. Mak to any prospective purchaser if Delight Star refuses to acquire such business.

(iv) Non-competition undertaking by Mr. Mak and Denker Investment

Denker Investment and Mr. Mak have undertaken to Delight Star, and Delight Star and the Company have undertaken to Denker Investment that they shall not, amongst others, carry on or have an interest in businesses engaged in the provision of

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vehicles sales, spare parts maintenance services and customer survey services in respect of the “FAW Toyota” brand in Guangzhou and Foshan, and the “Lexus” brand in Guangzhou or any other business as may be carried on by FAW Toyota 4S Group and Lexus 4S Group from time to time, for a term of three years from the date of which Denker Investment and Delight Star (as the case may be) ceases to be a shareholder of the relevant 4S Target Companies.

(v) Obtaining two additional dealerships in respect of the “FAW Toyota” brand

Denker Investment and Mr. Mak have undertaken to Delight Star that they will procure Guangzhou Guangbao to establish or acquire two additional dealerships for the provision of vehicles sales, spare parts, maintenance services and customer survey services to manufacturers or suppliers in respect of the “FAW Toyota” brand by December 2010.

(vi) The Contractual Arrangements

Upon 4S Completion, a series of Contractual Arrangements under the Contractual Arrangements Agreements (details of which are disclosed in the section headed “Letter from the Board” of the Circular) will be implemented on Guangzhou Guangbao and Foshan Junan (which may be held through the Contractual Arrangements), such that FAW Toyota 4S Group will be entitled to (i) enjoy all the economic benefits of both Guangzhou Guangbao and Foshan Junan; (ii) exercise management control over the operations of Guangzhou Guangbao and Foshan Junan and prevent leakages of assets and values to the registered owners of Guangzhou Guangbao and Foshan Junan; and (iii) acquire, if and when permitted by PRC law, the equity interest in Guangzhou Guangbao and Foshan Junan at the minimum transfer price permitted under the relevant PRC laws and regulations. Such Contractual Arrangements will also be applied to Lexus 4S Group to effect the aforesaid purposes on Guangzhou Junjia with Lexus 4S Group entitled to all the economic benefit of Guangzhou Junjia held by Mr. Mak (i.e. 55% interest in Guangzhou Junjia).

As disclosed in the section headed “Letter from the Board” of the Circular, according to the PRC legal advisers to the Company, the Contractual Arrangements Agreements do not contravene any existing PRC laws, rules and regulations although there can be no assurance that the relevant governmental authority will not challenge the validity of the Contractual Arrangements or the governmental authorities in PRC will not promulgate laws or regulations to invalidate the Contractual Arrangements in the future. The reporting accountants to the Company have also confirmed that upon 4S Completion, each of Guangzhou Guangbao and Guangzhou Junjia will become an indirect subsidiary of the Company. In addition, the Company has implemented similar contractual arrangements for certain of PRC companies engaged in auto dealership business (details of which are disclosed in the Annual Report). Since 1979, the PRC government has been developing its legal system by undertaking to promulgate a comprehensive system of laws, many of which are unprecedented or experimental and are expected to be refined or improved. It is understandable that there is no certainty as to whether any changes in laws and regulations (or the

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interpretation thereof) in the refining and readjustment process would have favourable or adverse impact on the Contractual Arrangements. However, as the PRC legal advisers to the Company have already confirmed that the Contractual Arrangements do not contravene any existing PRC laws, rules and regulations, we are of the view that the Contractual Arrangements can be justified for the economic benefit to the Group as analysed above.

Having considered the above, we are of the view that the terms of the 4S Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

3. The Consideration

The Consideration of approximately HK\$143.7 million was determined after arm's length negotiation between the Group and Denker Investment, comprising an amount of approximately HK\$102.7 million attributable as to (i) the financial track record of Guangzhou Guangbao and Guangzhou Junjia; and (ii) the Guaranteed Net Asset Value of approximately HK\$63.8 million; and as to the remaining HK\$41.0 million attributable as to (iii) the set up costs and future prospects of Foshan Junan, a newly established company engaged in dealership in respect of the "FAW Toyota" brand and (iv) the establishment or acquisition of two additional dealerships in respect of the "FAW Toyota" brand in PRC as undertaken by Denker Investment and Mr. Mak; and (v) the goodwill and future prospects of FAW Toyota 4S Group and Lexus 4S Group (particularly, the possibility of the future expansion of and potential acquisition of other dealerships by FAW Toyota 4S Group and Lexus 4S Group).

As there are no listed companies primarily engaged in auto dealerships, distribution of vehicles parts and accessories and provision of other auto related services in PRC, we, in evaluating the Consideration, have identified three companies (the "Comparable Companies") which are broadly comparable to FAW Toyota 4S Company and Lexus 4S Company.

Comparable Company	Ticker	Listing venue	Currency (Note 2)	Market capitalisation as at the Latest Practicable Date/ Consideration (Million)*	Net profit attributable to the shareholders for the financial year 2007 (Million)**	Price-earning Ratio
A.P. Eagers Limited	APE AU	Common Wealth of Australia	AUD	305.9	28.6	10.7
Hotai Motor Co. Ltd.	2207 TT	Taiwan	NTD	42,875.1	3,404.7	12.6
AutoNation, Inc.	AN US	United States of America	US\$	2,312.5	278.7	8.3
4S Target Group			HK\$	143.7	16.2 (Note 1)	8.9

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* *from Bloomberg*

** *extracted from the respective annual reports for FY2007*

Note 1: the net profit attributable to the Company from 4S Target Group is calculated based on the aggregate of Delight Star's effective interest attributable to the audited net profit (or loss) after tax for each of Guangzhou Guangbao, Foshan Junan and Guangzhou Junjia for FY2007, comprising (i) 50% of Guangzhou Guangbao's net profit after tax of approximately HK\$4.2 million; (ii) 27.5% of Guangzhou Junjia's net profit after tax of approximately HK\$51.7 million; and (iii) 50% of the loss incurred by Foshan Junan of approximately HK\$0.3 million.

Note 2: AUD, NTD and US\$ refer to the Australian Dollar, New Taiwan Dollar and United States Dollar respectively.

As illustrated above, the price-earning ratio for the 4S Acquisition based on the Consideration is comparable to the Comparable Companies.

Having taken into account that the price-earning ratio for the 4S Acquisition as calculated based on the Consideration is comparable to those of the Comparable Companies and the Guaranteed Profit, we are of the view that the Consideration is fair and reasonable and is in the interest of the Company and the Shareholders as a whole.

4. The Financial Assistance

Upon 4S Completion, the existing guarantees in favour of the 4S Target Companies shall be replaced by the replacement guarantees to be jointly provided by Delight Star and Denker Investment in an amount not exceeding HK\$80 million. In addition, each of Denker Investment and Delight Star shall contribute to 4S Target Companies by way of equity or shareholders' loans in proportion to their then interest in 4S Target Companies for working capital purposes (including the establishment or acquisition of two additional dealerships for the "FAW Toyota" brand in PRC). The additional funding to be contributed by Delight Star is not expected to exceed HK\$100 million.

5. Financial impacts of the 4S Acquisition

(i) Earnings

Following 4S Completion and the implementation of the Contractual Arrangements, each of FAW Toyota 4S Company and Lexus 4S Company will become an indirect non wholly-owned subsidiary of the Company and the Group will be entitled to 50% economic interest in each of them. Accordingly, the financial results of each of FAW Toyota 4S Group and Lexus 4S Group will be consolidated into the consolidated financial statements of the Company. It is expected that the net profit of the Company will be increased by the future profit of FAW Toyota 4S Company and Lexus 4S Company attributable to the Group.

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(ii) Gearing and working capital

According to the Interim Results, the Group had net debt approximately HK\$468 million (being the aggregate of the Company's bank borrowings of approximately HK\$2,142 million, less the cash and bank balances of approximately HK\$1,674 million) and total capital of approximately HK\$5,098 million (being the aggregate of the equity attributable to the Shareholders of approximately HK\$4,630 million and net debt of approximately HK\$468 million). As such, the gearing ratio of the Group (expressed as a percentage of the Company's net debt over its total capital) was approximately 9.2% as at 30 June 2008. Given that the entire Consideration will be payable in cash from the internal resources of the Company, the cash position of the Company will be decreased by the amount of Consideration of approximately HK\$143.7 million, and the gearing ratio of the Group will be increased to approximately 11.7% accordingly. If the Financial Assistance is taken into account, the gearing ratio of the Group is expected to be further increased.

Based on the Interim Results, the Group had cash and bank balance of approximately HK\$1,674 million and the Consideration represents approximately 8.6% of the Group's cash and bank balance as at 30 June 2008. In addition, as at 30 June 2008, the Group had undrawn available loans facilities amounted to approximately HK\$2,088 million (comprising committed term loans and revolving loans facilities of approximately HK\$600 million and uncommitted money market lines of approximately HK\$1,488 million). Having considered that (i) the Group has sufficient cash resources with significant undrawn banking facilities; (ii) the Financial Assistance will be contributed to FAW Toyota 4S Company and Lexus 4S Company in various stages during the course of their development; and (iii) FAW Toyota 4S Company and Lexus 4S Company are expected to continue to generate profit (and cash inflow), we concur with the management of the Company's view that the increase in the Group's gearing ratio is acceptable and there will be no material adverse impact on the Group's liquidity as a result of the 4S Acquisition.

(iii) Net asset value

Based on the Interim Results, the unaudited consolidated net asset value of the Group (including minority interest) was approximately HK\$4,763 million. Upon 4S Completion, the cash and bank balance will be decreased by the Consideration in the amount of approximately HK\$143.7 million. The excess of the Consideration over the net asset value of the 4S Target Group attributable to the Group will be recorded as goodwill and intangible asset. Accordingly, the 4S Acquisition is not expected to have any material impact on the Group's net asset value immediately after 4S Completion.

ANALYSIS AND CONCLUSION

The Group is a motor dealership conglomerate with a strong multi-brand portfolio comprising world renowned American, European, Japanese and Korean automobiles brands and having accounted for approximately 28.0% of the new vehicle market in Hong Kong in 2007. During the past years, the Group has been able to capitalise on its successful track record in Hong Kong and is currently the official distributor or dealer for 20 vehicle

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brands and operates 35 4S outlets in 13 major cities in PRC. Having considered the fact that PRC had overtaken Germany and Japan to become the second largest motor vehicle markets with sales volume projected to reach over 10 million units in 2008 as disclosed in the Annual Report, and the continuous growth in PRC's economy, the management of the Company expects that the Group's motor business in PRC to continue to be a major growth driver for its future business development. As such, the 4S Acquisition has provided the Group a good opportunity to strengthen its market position in Guangzhou and Foshan and to add brands to its multi-brand portfolio.

We noted that there would be slight adverse impact on the cash position and gearing ratio of the Group which mainly resulted from the cash consideration payable under the 4S Acquisition Agreement and the Financial Assistance. However, having considered the future profitability (hence cash inflow) from the vehicle sales and provision of motor related services from FAW Toyota 4S Company and Lexus 4S Company as evidenced by their successful track records, together with (i) the standing and substantial experience of Mr. Mak in the motor dealership business in PRC and his future contribution to the Group's motor business in PRC; (ii) the various guarantees and undertakings provided by Denker Investment and Mr. Mak, including, amongst others, the profit guarantee and the related compensation mechanism in favour of the Group; and (iii) the arrangement that any future capital contribution by the Group and Denker Investment, which is primarily for the purpose of establishing or acquiring two additional dealerships in respect of the "FAW Toyota" brand in PRC by 31 December 2010, will be proportional to their respective shareholdings in each of the 4S Target Companies, we consider that the 4S Acquisition (including the Financial Assistance) will enhance the future business develop of the Group's motor business in PRC as a whole. Accordingly, we are of the view that the 4S Acquisition is conducted in the ordinary and usual course of the Group's business and the terms of the 4S Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

RECOMMENDATION

Based on the above principal factors and reasons, we consider the 4S Acquisition (including the Financial Assistance) is conducted in the ordinary and usual course of business of the Company and on normal commercial terms and the terms of the 4S Acquisition Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

Yours faithfully,

For and on behalf of

Commerzbank AG Hong Kong Branch

Kenneth Chan

Head of Corporate Finance — Asia Pacific

Gaston Lam

Corporate Finance — Asia Pacific

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this Circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors and Chief Executive in Securities

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of the SFO) which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short position which he was taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Companies set out in the Listing Rules:

(i) Shares in the Company:

Name of Director	<u>Number of ordinary shares</u>	Percentage to the issued share capital %
	Personal interests unless otherwise stated	
Hui Ying Bun	216,000	0.012
Chu Hon Fai	200,000	0.011
Yip Moon Tong	100,000 <i>(Note 1)</i>	0.006
Mak Kwing Tim	100,000	0.006
Lau Sei Keung	180,000	0.010
Tsoi Tai Kwan, Arthur	51,000 <i>(Note 2)</i>	0.003
Glenn Robert Sturrock Smith	50,000	0.003
Chau Chi Yin	21,000	0.001

Notes:

1. Jointly held with his spouse.
2. Personal interest in respect of 50,000 shares and interest by attribution in respect of 1,000 shares.

(ii) Share options in the Company:

Name of Director	Date of Grant	Exercise price per share HK\$	Exercisable Period	Number of Share options outstanding as at the Latest Practicable Date	Percentage of issued share capital %
Hui Ying Bun	03.10.2007	5.88	17.04.2008– 02.10.2012	1,700,000	0.095
Chu Hon Fai	03.10.2007	5.88	17.04.2008– 02.10.2012	1,200,000	0.067
Yip Moon Tong	03.10.2007	5.88	17.04.2008– 02.10.2012	1,000,000	0.056
Mak Kwing Tim	03.10.2007	5.88	17.04.2008– 02.10.2012	800,000	0.044
Lau Sei Keung	03.10.2007	5.88	17.04.2008– 02.10.2012	800,000	0.044
Tsoi Tai Kwan, Arthur	03.10.2007	5.88	17.04.2008– 02.10.2012	800,000	0.044
Glenn Robert Sturrock Smith	03.10.2007	5.88	17.04.2008– 02.10.2012	500,000	0.028

(iii) Shares in associated corporations:

Name of Director	Number of ordinary shares in CITIC Pacific Limited Personal interests unless otherwise stated	Percentage to the issued share capital %
Hui Ying Bun	337,000	0.01537
Chu Hon Fai	193,000	0.00880
Mak Kwing Tim	5,000	0.00023
Lau Sei Keung	1,000	0.00005
Tsoi Tai Kwan, Arthur	43,000 <i>(Note)</i>	0.00196
Chau Chi Yin	536,000	0.02444
Chan Chui Sheung, Stella	5,000	0.00023

Note: 25,000 shares out of the 43,000 shares were held by his spouse.

Name of Director	Number of ordinary shares in CITIC 1616 Holdings Limited		Percentage to the issued share capital %
	Personal interests unless otherwise stated		
Chau Chi Yin	26,750		0.00135

(iv) Share options in associated corporation:

Name of Director	Share options in CITIC Pacific Limited				Percentage of issued share capital %
	Date of Grant	Exercise price per share HK\$	Exercisable Period	Number of Share options outstanding as at the Latest Practicable Date	
Hui Ying Bun	01.11.2004	19.90	01.11.2004– 31.10.2009	300,000	0.02736
	20.06.2006	22.10	20.06.2006– 19.06.2011	300,000	
				600,000	
Chu Hon Fai	01.11.2004	19.90	01.11.2004– 31.10.2009	200,000	0.01824
	20.06.2006	22.10	20.06.2006– 19.06.2011	200,000	
				400,000	
Chau Chi Yin	01.11.2004	19.90	01.11.2004– 31.10.2009	500,000	0.09575
	20.06.2006	22.10	20.06.2006– 19.06.2011	800,000	
	16.10.2007	47.32	16.10.2007– 15.10.2012	800,000	
				2,100,000	
Chan Chui Sheung, Stella	16.10.2007	47.32	16.10.2007– 15.10.2012	600,000	0.02736
Kwok Man Leung	16.10.2007	47.32	16.10.2007– 15.10.2012	600,000	0.02736

Note: The options were granted by CITIC Pacific Limited, the holding company of the Company.

(b) Interests of Directors and chief executive in substantial shareholders of the Company

As at the Latest Practicable Date, save as disclosed below, none of the Directors was a director or employee of a company which had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Director	Name of company which had such discloseable interest or short position	Position within such company
Ho Hau Hay, Hamilton	CITIC Pacific	Director
Chau Chi Yin	CITIC Pacific	Director
Chan Chui Sheung, Stella	CITIC Pacific	Company Secretary
Kwok Man Leung	CITIC Pacific	Director

3. MATERIAL ADVERSE CHANGE

Save as disclosed in this Circular, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

4. EXPERT

- (a) The qualification of the expert who has provided its advice which is contained in this Circular is set out as follows:

Name	Qualification
Commerzbank	Commerzbank AG, acting through its Hong Kong branch, a licensed bank under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) and an authorized financial institution under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the SFO

- (b) Commerzbank has confirmed that it has no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group as at the Latest Practicable Date.
- (c) Commerzbank has given and has not withdrawn its written consent to the issue of this Circular with the inclusion of its letter and references to its name in the form and context in which it appears.

- (d) The letter from Commerzbank is given as of 16 September 2008 for incorporation herein.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had, or proposed to have, a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without compensation (other than statutory compensation)).

6. COMPETING INTEREST

Mr. Kwok Man Leung, a non-executive Director, is a director of Wal-Mart East China Stores Co., Ltd. and Jiangsu Wal-Mart Stores Co., Ltd. which are engaged in hypermarket business in the PRC. In so far as the Directors are aware, save as disclosed above, none of the Directors and their respective associates had any interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. INTERESTS IN ASSETS AND CONTRACTS

None of the Directors had any direct or indirect interests in any assets which have been acquired or disposed of by, or leased to, or which are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries since 31 December 2007, being the date to which the latest published audited accounts of the Company were made up.

There is no contract or arrangement subsisting at the date of this Circular in which any of the Directors is materially interested and which is significant in relation to the business of the Group.

8. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim of material importance and, so far as the Directors were aware, no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

9. GENERAL

- (a) The secretary of the Company is Ms. Alice Tso Mun Wai, ACIS, MA and the qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Wai King Fai, Francis, CPA, ACMA, ACA.
- (b) The registered office of the Company is at 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong.
- (c) The share registrars of the Company is Tricor Investor Services Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this Circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on a business day at the registered office of the Company at 8th Floor, DCH Building, 20 Kai Cheung Road, Kowloon Bay, Hong Kong from the date of this Circular up to and including 30 September 2008:

- (a) the letter from the Independent Board Committee, the text of which is set out in this Circular;
- (b) the letter from the Independent Financial Adviser, the text of which is set out in this Circular; and
- (c) the 4S Acquisition Agreement.