

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LEI SHING HONG LIMITED

利星行有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 238)

ADJUSTMENT TO CONSIDERATION IN THE DISPOSAL OF INTEREST IN A SUBSIDIARY DISCLOSEABLE AND CONNECTED TRANSACTION

ADJUSTMENT TO CONSIDERATION IN THE DISPOSAL OF INTEREST IN A SUBSIDIARY

Pursuant to the Disposal Agreement dated 8 June 2004, Knightsbridge, a wholly owned subsidiary of LSHA (which is in turn wholly owned by the Company), agreed to dispose of the Interest to the Purchaser at the Initial Consideration. The Initial Consideration was determined on the earnings potential of ZL and an agreed price earnings multiple of 14, based on the audited financial statements of ZL for the year ended 31 December 2003. Prior to the Interest Disposal: (i) the Group held 44,880,000 shares of NTD10 each in ZL, representing 51% of the issued share capital thereof, through Knightsbridge; and (ii) the remaining 49% interest in ZL was held by the Purchaser.

Transfer of the Interest and payment of the Initial Consideration took place on 28 June 2004 in accordance with the terms of the Disposal Agreement, as a result of which the entire issued share capital of ZL is now owned by the Purchaser and ZL is no longer a subsidiary of the Company.

The Consideration for the Interest Disposal was not finalized as pursuant to Clause 3.4 of the Disposal Agreement, the Consideration was subject to adjustment after the finalization of the financial statements of ZL but without specifying the financial period to be referred to. Subsequently, the parties thereto agreed that the financial statements of ZL for the nine months period ended 30 September 2004 should be used as the basis of such adjustment after commercial negotiations. Further, the amount of the adjustment of the Consideration was determined based on the earnings potential of ZL, an earnings multiple of 14 based on commercial negotiations between the parties in reliance on the Unaudited Financial Statements and the updated profit projection of ZL based on the Unaudited Financial Statements. Accordingly, after finalization of the Unaudited Financial Statements, the Consideration was, on 19 October 2004, adjusted upwards by the Additional Consideration, representing an increase of 67.3% over the Initial Consideration. After the said adjustment, the total Consideration is NTD1,092,679,854 (equivalent to approximately HK\$247,854,773) in aggregate.

CONNECTED TRANSACTION

The Company held indirectly (both before and after 28 June 2004) and continues to hold a 34.9% equity interest in the issued share capital of the Purchaser. The Interest Disposal under the Disposal Agreement constitutes a connected transaction of the Company under Rule 14A.16(5) of the Listing Rules for the reason that the Purchaser is a connected person of the Company under the Listing Rules as it is a substantial shareholder of ZL, an indirect non-wholly owned subsidiary of the Company and shall be subject to prior Independent Shareholders' approval at the general meeting of the Company under Rule 14A.18 and Rule 14A.19 of the Listing Rules. Since no prior approval

from the Independent Shareholders was obtained for approving the Interest Disposal, the EGM will be convened to confirm the Interest Disposal. Under Rule 14A.52 of the Listing Rules, any vote taken at the EGM confirming the Interest Disposal by the Independent Shareholders must be taken by poll in the manner prescribed in the Listing Rules. Any Shareholders, other than the Independent Shareholders, shall abstain from voting on the resolutions confirming the Interest Disposal at the EGM.

DISCLOSEABLE TRANSACTION

The Interest Disposal also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules, as the Consideration is more than 5% but less than 25% of the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the Supplemental Agreement.

An independent board committee will be established to advise the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Interest Disposal so as to decide whether the same shall be confirmed and an independent financial adviser will be appointed to advise the independent board committee and the Independent Shareholders in this regard. In the event that the resolutions in relation to the Interest Disposal shall have been rejected by the Independent Shareholders in the EGM, Knightsbridge will negotiate with the Purchaser to reverse such transaction. Although in such circumstances, the Purchaser may or may not be willing to make such reversal, the EGM still provides a forum in which the Independent Shareholders can voice their views on the Interest Disposal and the terms of the Disposal Agreement and the Supplemental Agreement.

A circular containing, inter alia, details of the Interest Disposal, including the advice of the aforesaid independent board committee and of the independent financial adviser as required under the Listing Rules, together with a notice to convene the EGM to confirm the Interest Disposal, will be dispatched to all Shareholders as soon as practicable.

The information in relation to the Interest Disposal was not previously disclosed to the public as the Consideration was not yet finalized at the date of the Disposal Agreement and was subject to adjustment at relevant time. The Company at the time considered that it would be more informative to release the relevant information showing the Consideration. However, although the entering into of the Disposal Agreement did not constitute a discloseable transaction under Chapter 14 of the Listing Rules, the failure to release the said information and to obtain prior Independent Shareholders' approval in fact constitute breaches in respect of the connected transaction requirements under Chapter 14A of the Listing Rules and the obligation under Rule 13.23(1) of the Listing Rules and the Stock Exchange has indicated that it reserves the right to take all appropriate actions against the Company and its Directors in respect of such breaches.

In order to avoid the recurrence of similar breaches in the future, the Company will ensure that it will seek professional advice promptly in order to ascertain the requirements under the Listing Rules and consult the Stock Exchange at an early stage to ascertain to what extent the relevant provisions of the Listing Rules apply in cases of doubt.

DISPOSAL OF INTEREST IN A SUBSIDIARY

Disposal Agreement and Supplemental Agreement

Date of the Disposal Agreement:

8 June 2004

Date of the Supplemental Agreement:

19 October 2004

Vendor:

Knightsbridge Limited, an indirect wholly owned subsidiary of the Company

Purchaser:

Capital Motors Inc., 34.9% equity interest of which is indirectly owned by the Company

Subject matter:

44,880,000 shares of NTD10 each in ZL, representing 51% of the issued share capital of ZL

The net profits before taxation and extraordinary items of ZL is NTD178,494,727 (equivalent to approximately HK\$40,072,066) and NTD9,513,884 (equivalent to approximately HK\$2,172,971) for the two years ended 31 December 2002 and 31 December 2003 (based on audited financial statements of ZL) respectively.

The net profits after taxation and extraordinary items of ZL is NTD179,131,754 (equivalent to approximately HK\$40,215,079) and NTD9,189,549 (equivalent to approximately HK\$2,098,893) for the two years ended 31 December 2002 and 31 December 2003 (based on audited financial statements of ZL) respectively.

The figure of the net profits after taxation and extraordinary items of ZL for the year ended 31 December 2002 is larger than the corresponding net profits before taxation and extraordinary items as there was tax credit for ZL in that year.

Consideration:

NTD1,092,679,854 (equivalent to approximately HK\$247,854,773)

Pursuant to the Disposal Agreement dated 8 June 2004, Knightsbridge, a wholly owned subsidiary of LSHA (which is in turn wholly owned by the Company), agreed to dispose of the Interest to the Purchaser at the Initial Consideration of NTD652,973,126 (equivalent to approximately HK\$150,767,527). The Initial Consideration was determined on the earnings potential of ZL and an agreed price earnings multiple of 14, based on the audited financial statements of ZL for the year ended 31 December 2003. Prior to the Interest Disposal: (i) the Group held 44,880,000 shares of NTD10 each in ZL, representing 51% of the issued share capital thereof, through Knightsbridge; and (ii) the remaining 49% interest in ZL was held by the Purchaser.

Transfer of the Interest and payment of the Initial Consideration took place on 28 June 2004 in accordance with the terms of the Disposal Agreement, as a result of which the entire issued share capital of ZL is now owned by the Purchaser and ZL is no longer a subsidiary of the Company. As at the date hereof, the Interest Disposal was completed except for the payment of the Additional Consideration which shall be made on or before 15 November 2004 as specified in the Supplemental Agreement.

The Company held indirectly (both before and after 28 June 2004) and continues to hold a 34.9% equity interest in the issued share capital of the Purchaser. The Purchaser is a connected person of the Company under the Listing Rules as it is a substantial shareholder of ZL, an indirect non-wholly owned subsidiary of the Company.

The Consideration under the Disposal Agreement was not finalized as pursuant to Clause 3.4 of the Disposal Agreement, the Consideration was subject to adjustment after the finalization of the financial statements of ZL but without specifying the financial period to be referred to. Subsequently, the parties agreed that the financial statements of ZL for the nine months period ended 30 September 2004 should be used as the basis of such adjustment after commercial negotiations. Further, the amount of the adjustment of the Consideration was determined on the earnings potential of ZL, an earnings multiple of 14 based on commercial negotiations between the parties in reliance on the Unaudited Financial Statements and an updated profit projection of ZL based on the Unaudited Financial Statements. Accordingly, after the finalization of the Unaudited Financial Statements, the Consideration was, on 19 October 2004, adjusted

upwards by the Additional Consideration to NTD1,092,679,854 (equivalent to approximately HK\$247,854,773), representing an increase of 67.3% over the Initial Consideration. After the said adjustment, the total Consideration is NTD1,092,679,854 (equivalent to approximately HK\$247,854,773) in aggregate.

DESCRIPTION OF ZL

Prior to the transfer of the Interest, the Interest was held by Knightsbridge, a wholly owned subsidiary of LSHA, which is in turn wholly owned by the Company while the remaining 49% interest of ZL was held by the Purchaser.

ZL is principally an investment holding company in Taiwan. Its major asset is its 51% shareholding in DaimlerChrysler Taiwan Limited, a company incorporated in Taiwan, engaging in the trading of motor vehicles in Taiwan, with a net asset value of NTD2,099,756,547 (equivalent to approximately HK\$463,626,246) as at 30 September 2004.

CONSIDERATION AND PAYMENT OF THE ADDITIONAL CONSIDERATION

The Consideration (as adjusted pursuant to the Disposal Agreement and the Supplemental Agreement) was arrived at after arm's length negotiations between Knightsbridge and the Purchaser, based on the earnings potential of ZL, an agreed price earnings multiple of 14 based on the Unaudited Financial Statements and the updated profit projection of ZL based on the Unaudited Financial Statements.

The Additional Consideration shall be payable in cash and be financed by internal resources of the Purchaser. The Company does not and will not contribute to any of the Consideration paid or payable by the Purchaser.

The Board (including the independent non-executive Directors) considers that the terms of the Disposal Agreement and the Supplemental Agreement including, without limitation, the Consideration (before and after being revised) payable thereunder and the manner in which such Consideration will be settled, are fair and reasonable and are in the interest of the Shareholders as a whole for the reasons set out in section headed "Reasons for the Interest Disposal".

The parties have agreed that the Additional Consideration will be paid on or before 15 November 2004 and the Purchaser will attend to necessary formalities for effecting remittance of the funds required.

CONNECTED TRANSACTION

The Interest Disposal under the Disposal Agreement constitutes connected transaction of the Company under Rule 14A.16(5) of the Listing Rules for the reason that the Purchaser is a connected person of the Company under the Listing Rules as it is a substantial shareholder of ZL, an indirect non-wholly owned subsidiary of the Company, and shall be subject to prior Independent Shareholders' approval at the general meeting of the Company under Rule 14A.18 and Rule 14A.19 of the Listing Rules. Since no prior approval from the Independent Shareholders was obtained for approving the Interest Disposal, the EGM will be convened to confirm the Interest Disposal. Under Rule 14A.52 of the Listing Rules, any vote taken at the EGM confirming the Interest Disposal by the Independent Shareholders must be taken by poll in the manner prescribed in the Listing Rules. Any Shareholders, other than the Independent Shareholders, shall abstain from voting on the resolutions confirming the Interest Disposal at the EGM.

DISCLOSEABLE TRANSACTION

The Interest Disposal constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules as the Consideration is more than 5% but less than 25% when compared against the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the Supplemental Agreement.

REASONS FOR THE INTEREST DISPOSAL

The Directors consider the Interest Disposal represents a good opportunity to realize a significant profit for the Group and to effect business restructuring and streamlining of the Group's operations by consolidating its business operations in its Taiwan automobile division. After the Interest Disposal, the Taiwan automobile division of the Group will be grouped under one entity, i.e. the Purchaser, and thus the synergy and efficiency of the said division will be improved while at the same time the Group retains an indirect interest in ZL with ability to benefit from any future growth of ZL.

FINANCIAL EFFECT OF THE INTEREST DISPOSAL

At the time of incorporation of ZL on 5 October 2001, 51% of the shareholding of ZL was subscribed and held by the Group through Knightsbridge and the remaining 49% shareholding was subscribed and held by the Purchaser at the price of NTD10 per share (i.e. NTD448,800,000 (equivalent to approximately HK\$101,569,271) and NTD431,200,000 (equivalent to approximately HK\$97,586,163) respectively). The initial contribution by each of Knightsbridge and the Purchaser was in proportion to their respective shareholding in ZL. It is estimated that, upon payment of the Additional Consideration, the Group will record a profit of approximately HK\$86,857,136, subject to audit. The said profit represents the difference between the net sale proceeds from the Interest Disposal and the net asset value of the Interest as at 30 September 2004 after certain adjustments, including but not limited to goodwill value adjustment.

USE OF PROCEEDS

The net sale proceeds of the total of NTD651,014,207 (equivalent to HK\$150,315,227), being the net sale proceeds from the Initial Consideration received, together with NTD438,387,608 (equivalent to HK\$96,795,984), being the net sale proceeds to be received from the Additional Consideration, from the Interest Disposal will be used as general working capital of the Group and no specific investment has been identified by the Company at this stage for the utilization of the sale proceeds.

GENERAL

The Group is principally engaged in the trading of motor vehicles, spare parts and heavy equipments, property development and investment, financial services, and general trading and services.

The Purchaser is principally engaged in the import and marketing of Mercedes-Benz vehicles and parts and the provision of repair and maintenance services to Mercedes-Benz vehicles in Taiwan.

An independent board committee will be established to advise the Independent Shareholders in relation to the fairness and reasonableness of the terms of the Interest Disposal so as to decide whether the same shall be confirmed and an independent financial adviser will be appointed to advise the independent board committee and Independent Shareholders in this regard. In the event that the resolutions in relation to the Interest Disposal shall have been rejected by the Independent Shareholders in the EGM, Knightsbridge will negotiate with the Purchaser to reverse such transaction. Although in such circumstances, the Purchaser may or may not be willing to make such reversal, the EGM still provides a forum in which the Independent Shareholders can voice their views on the Interest Disposal and the terms of the Disposal Agreement and the Supplemental Agreement.

A circular containing, inter alia, details of the Interest Disposal, including the advice of the aforesaid independent board committee and of the independent financial adviser as required under the Listing Rules, together with a notice to convene the EGM to confirm the Interest Disposal, will be dispatched to all Shareholders as soon as practicable.

The information in relation to the Interest Disposal was not previously disclosed to the public as the Consideration was not yet finalized at the date of the Disposal Agreement and was subject to adjustment at relevant time. The Company at the time considered that it would be more informative to release the relevant information showing the Consideration. However, although the entering into of the Disposal Agreement did not constitute a discloseable transaction under Chapter 14 of the Listing Rules, the failure to release the said information and to obtain prior Independent Shareholders' approval in fact constitute

breaches in respect of the connected transaction requirements under Chapter 14A of the Listing Rules and the obligation under Rule 13.23(1) of the Listing Rules and the Stock Exchange has indicated that it reserves the right to take all appropriate actions against the Company and its Directors in respect of such breaches.

In order to avoid the recurrence of similar breaches in the future, the Company will ensure that it will seek professional advice promptly in order to ascertain the requirements under the Listing Rules and consult the Stock Exchange at an early stage to ascertain to what extent the relevant provisions of the Listing Rules apply in cases of doubt.

DEFINITIONS

“Additional Consideration”	NTD439,706,728 (equivalent to approximately HK\$97,087,246), representing the amount of the upward adjustment of the Consideration pursuant to the Supplemental Agreement
“associates”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of directors of the Company
“Company”	Lei Shing Hong Limited (利星行有限公司), a company incorporated in Hong Kong with limited liability, the securities of which are listed on the Stock Exchange
“Consideration”	the aggregate amount of the Initial Consideration subsequently adjusted according to Clause 3.4 of the Disposal Agreement by mutual agreement of Knightsbridge and the Purchaser to NTD1,092,679,854 (“Adjusted Consideration”) (equivalent to approximately HK\$247,854,773) pursuant to the Supplemental Agreement
“Directors”	the directors of the Company
“Disposal Agreement”	the sale and purchase agreement dated 8 June 2004 and entered into between Knightsbridge as vendor and the Purchaser as purchaser in relation to the Interest Disposal
“EGM”	the extraordinary general meeting of the Company to be convened for the purpose of confirming and passing the relevant resolutions in relation to the Interest Disposal
“Group”	the Company and its subsidiaries from time to time
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders who are not interested in the Interest Disposal and not connected with the Purchaser and its associates
“Initial Consideration”	NTD652,973,126 (equivalent to approximately HK\$150,767,527) paid on 28 June 2004 by the Purchaser for the purchase of the Interest pursuant to the Disposal Agreement
“Interest”	44,880,000 shares of NTD10 each in ZL, representing 51% of the issued share capital thereof, disposed of by Knightsbridge to the Purchaser pursuant to the Disposal Agreement
“Interest Disposal”	the disposal of the Interest by Knightsbridge to the Purchaser pursuant to the Disposal Agreement

“Knightsbridge”	Knightsbridge Limited, a company incorporated in Labuan with limited liability and is a wholly owned subsidiary of LSHA
“Listing Rules”	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“LSHA”	Lei Shing Hong Automobile Limited, a company incorporated in Hong Kong with limited liability and is a wholly owned subsidiary of the Company
“Purchaser”	Capital Motors Inc., a company incorporated in Taiwan with limited liability and in which the Company holds an indirect interest of 34.9%. The remaining 65.1% interest of the Purchaser is held by parties not having any shareholding in the Company, except one of which is having not more than 5% shareholding in the Company and will not be regarded as an Independent Shareholder
“Share(s)”	share(s) of the Company of HK\$1 each
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental Agreement”	the agreement entered into between Knightsbridge as vendor and the Purchaser as purchaser on 19 October 2004 in relation to the disposal of the Interest which is in supplemental to the Disposal Agreement wherein the Consideration was adjusted and finalized
“Unaudited Financial Statements”	the unaudited financial statements of ZL for the nine months period ended 30 September 2004
“ZL”	Zhong Li Investment Limited, a company incorporated in Taiwan with limited liability
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“NTD”	new Taiwan dollars, the lawful currency of Taiwan
“%”	per cent.

As at the date of this announcement, the executive Directors are Mr Gan Khian Seng, Mr Yong Foo San, Mr Volker Josef Eckehard Harms, Ms Lim Mooi Ying, Marianne and Mr Lam Kwong Yu, the non-executive Directors are Mr Victor Yang and Mr Christopher Patrick Langley and the independent non-executive Directors are Mr Fung Ka Pun, Mr Hubert Meier and Mr Alan Howard Smith.

Note: For the purpose of this announcement and for indication only, the exchange rate between NTD to HK\$ used is the rate prevailing on the relevant reference date.

By Order of the Board
Lei Shing Hong Limited
GAN Khian Seng
Managing Director

Hong Kong, 27 October 2004

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