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祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 199)

Discloseable Transaction involving issue of Convertible Note

On 19th March, 2004, CTH and China Strategic entered into the Tung Fong Hung Agreement pursuant to which CTH has agreed to acquire from China Strategic the entire equity interest in Tung Fong Hung for a total consideration of HK\$42 million. The said consideration will be settled as to HK\$6.5 million by the issue of the Tung Fong Hung Promissory Note and as to HK\$35.5 million in cash. On the same date, the Company, CTH and Chelson entered into the Pacific Wins Agreement pursuant to which CTH has agreed to acquire from Chelson its entire holding of 50% equity interest in Pacific Wins for a total consideration of HK\$28 million. The said consideration will be settled as to HK\$6.5 million by the issue of the Pacific Wins Promissory Note, as to HK\$15 million by the Convertible Note, and as to HK\$6.5 million in cash. The remaining 50% equity interest in Pacific Wins is held by a wholly owned subsidiary of Tung Fong Hung.

The Tung Fong Hung Agreement and the Pacific Wins Agreement are not inter-conditional. The Tung Fong Hung Agreement and the Pacific Wins Agreement together constitute a discloseable transaction of the Company under the Listing Rules. The Company will seek a specific mandate from the Shareholders at the Special General Meeting for the issue of the Conversion Shares. A circular containing details of the Tung Fong Hung Agreement and the Pacific Wins Agreement and a notice of the Special General Meeting will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Monday, 22nd March, 2004 pending release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares as from 9:30 a.m. on Thursday, 25th March, 2004.

TUNG FONG HUNG AGREEMENT

Date: 19th March, 2004

Purchaser: CTH, a wholly-owned subsidiary of the Company

Vendor: China Strategic, which is owned as to approximately 29.4% by Hanny. Hanny and its wholly owned subsidiary, Hanny Magnetics Limited, have granted two loan facilities to Lunghin in October 2001 and April 2002 respectively for its own purposes. The two loan facilities are secured by a pledge over 27,603,000 Shares (representing approximately 21.6% of the Company's issued share capital) held by Lunghin. Lunghin is the single largest substantial Shareholder holding 28,558,196 Shares, representing approximately 22.4% of the issued share capital of the Company. China Strategic is not a connected person of the Company (as defined under the Listing Rules).

Assets purchased:

100% equity interest in Tung Fong Hung. The Tung Fong Hung Group is principally engaged in the manufacture and sale of "Tung Fong Hung" branded chinese pharmaceutical and health products and foodstuffs in Mainland China, Taiwan, Canada, Macau and Singapore. Most of the branded products are processed by the Tung Fong Hung Group's wholly owned factory in Zhongshan, Mainland China. The Tung Fong Hung Group is also engaged in production and distribution of western pharmaceutical products through Jean-Marie. Jean-Marie is wholly owned by Pacific Wins. Pacific Wins became a 50% owned associate of Tung Fong Hung following the latter's sale of 50% interest in Pacific Wins to Chelson in July 2003.

For the year ended 31st March, 2003, Tung Fong Hung recorded audited consolidated loss before taxation of approximately HK\$19.0 million and audited loss after taxation and minority interests of approximately HK\$20.5 million. For the year ended 31st March, 2002, Tung Fong Hung's audited consolidated loss before taxation amounted to approximately HK\$11.7 million and loss after taxation and minority interests amounted to approximately HK\$12.0 million. Though the Tung Fong Hung Group has incurred losses for the two years ended 31st March, 2003, the operating results have improved later in the year. According to the unaudited accounts of the Tung Fong Hung Group for the nine months ended 31st December, 2003, the Tung Fong Hung Group recorded an unaudited profit after taxation of approximately HK\$3.7 million.

As at 31st December, 2003, the unaudited consolidated net tangible asset of Tung Fong Hung amounted to approximately HK\$32.3 million.

Tung Fong Hung will upon completion become a wholly owned subsidiary of the Company.

Consideration:

HK\$42 million, payable as to HK\$35.5 million in cash and as to HK\$6.5 million by the issue of the Tung Fong Hung Promissory Note upon completion of the Tung Fong Hung Agreement. The consideration has been agreed after arm's length negotiations between the parties having taken into consideration, inter alia, the unaudited net tangible assets of Tung Fong Hung of approximately HK\$32.3 million as at 31st December, 2003, the expertise and the established market position of the Tung Fong Hung Group in the pharmaceutical and health products industry. The Directors believe the business of the Tung Fong Hung Group would continue to grow with the increase in health awareness of the public and the increase in the number of PRC visitors to Hong Kong as a result of the Individual Visit Scheme. The Directors consider that the acquisition pursuant to the Tung Fong Hung Agreement is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

The Group will finance the consideration from its internal resources.

Principal terms of the Tung Fong Hung Promissory Note:

Principal amount: HK\$6,500,000

Maturity: On the first anniversary of the date of issue of the Tung Fong Hung Promissory Note.

Interest: 5.5% per annum which shall accrue from and including the date of the Tung Fong Hung Promissory Note but excluding the maturity date.

Transferability: Not transferable.

Conditions:

Completion of the Tung Fong Hung Agreement is conditional upon:

- (a) within 7 Business Days from the date of the Tung Fong Hung Agreement, the Company undertaking a “due diligence” review of the Tung Fong Hung Group and being satisfied with such review in all respect; and
- (b) all consents (if any) of governmental or regulatory authorities and other relevant third parties, which are necessary and essential for the entering into and the implementation of the Tung Fong Hung Agreement and all transactions contemplated thereunder having been obtained.

Completion shall take place on the third Business Day after satisfaction or waiver by CTH of the above conditions (or such other time as the parties may agree). If the above conditions are not fulfilled or waived in writing by CTH on or prior to 30th June, 2004 (or such later date as may be agreed between CTH and China Strategic), the Tung Fong Hung Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any prior breach thereof).

PACIFIC WINS AGREEMENT

Date: 19th March, 2004

Purchaser: CTH, a wholly owned subsidiary of the Company

Vendor: Chelson, which is a wholly owned subsidiary of CK Life Science Int’l., (Holdings) Inc., a company listed on the Growth Enterprise Market of the Stock Exchange (stock code 8222). Chelson and its controlling shareholder are not connected persons of the Company (as defined under the Listing Rules).

Guarantor: The Company

Assets purchased:

50% equity interest in Pacific Wins. The remaining 50% equity interest in Pacific Wins is beneficially owned by the Tung Fong Hung Group. The Pacific Wins Group is principally engaged in the production, sales and distribution of western pharmaceutical products through Jean-Marie.

For the years ended 31st March, 2003 and 31st March, 2002, the Pacific Wins Group recorded unaudited consolidated net loss of approximately HK\$10.2 million and a profit after taxation of approximately HK\$6.1 million respectively. As at 31st December, 2003, the unaudited consolidated net tangible assets of Pacific Wins amounted to approximately HK\$30.8 million.

Consideration:

HK\$28 million, payable as to HK\$6.5 million in cash, as to HK\$6.5 million by the issue of the Pacific Wins Promissory Note and as to the remaining HK\$15 million by the issue of the Convertible Note upon completion of the Pacific Wins Agreement. The consideration has been agreed after arm's length negotiations between the parties having taken into consideration the unaudited net tangible assets of approximately HK\$15.4 million as at 31st December, 2003 attributable to the 50% equity interest in Pacific Wins and the expertise and extensive experiences of the Pacific Wins Group in the pharmaceutical and health care industry. The Directors consider that the acquisition pursuant to the Pacific Wins Agreement is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole. The acquisition pursuant to the Pacific Wins Agreement is complementary to the Group's intended acquisition of the Tung Fong Hung Group as it will enable the Tung Fong Hung Group to re-gain full control of the business conducted by Jean-Marie which is wholly owned by Pacific Wins. Pacific Wins will become a wholly owned subsidiary of the Company following completion of both the Pacific Wins Agreement and the Tung Fong Hung Agreement.

The Group will finance the consideration from its internal resources.

Principal terms of the Pacific Wins Promissory Note:

Principal amount: HK\$6,500,000.

Maturity: On the first anniversary of the date of issue of the Pacific Wins Promissory Note.

Interest: 5.5% per annum which shall accrue from and including the date of the Pacific Wins Promissory Note but excluding the maturity date.

Guarantee: The Company guarantees the due and punctual payment of all amounts payable by CTH under the Pacific Wins Promissory Note.

Transferability: Not transferable.

Principal terms of the Convertible Note:

Principal amount: HK\$15,000,000.

Issue price: 100% of the principal amount of the Convertible Note.

Maturity: Unless previously converted into Shares or repaid, the Convertible Note will mature and will be repaid by the Company at par on the second anniversary of the date of issue of the Convertible Note.

Interest: 2% per annum from the date of issue of the Convertible Note on the principal amount outstanding from time to time, which is payable by the Company quarterly in arrears.

Conversion: Holders of the Convertible Note will have the right to convert the Convertible Note in whole or in part (in an amount or integral multiple of HK\$1,000,000) into Shares at any time after the date of issue of the Convertible Note at the conversion price of HK\$0.45 per Share (the "Conversion Price"), subject to adjustments.

The Conversion Price represents a premium of about 2% over the 10-day average closing price of the Shares of approximately HK\$0.44 (the “Average Closing Price”) ended on 19th March, 2004 (being the last trading day immediately before the release of this announcement) and a discount of about 18% to the closing price of the Share of HK\$0.55 (the “Last Closing Price”) on 19th March, 2004.

The Conversion Shares, when issued, shall rank pari passu in all respects with all other Shares in issue on the date of conversion including the right to any dividends or distributions.

Adjustment to the Conversion Price: If and whenever the average closing price per Share for the 20 consecutive trading days immediately preceding the date falling on the first anniversary of the date of issue of the Convertible Note by the Company (the “Average Price”) is lower than the Conversion Price, the Conversion Price shall be adjusted to the Average Price, provided that the Average Price shall not fall below HK\$0.30.

If the Average Price falls below HK\$0.30, the Conversion Price shall be adjusted to HK\$0.30 (the “Adjusted Conversion Price”). Such adjustment shall become effective on the first anniversary of the date of issue of the Convertible Notes by the Company.

In fixing the Adjusted Conversion Price, the Company has referred to a longer term of performance of the price of the Shares. The Adjusted Conversion Price represents a premium of 11% over the average closing price of the Share of approximately HK\$0.27 during the period from 15th April, 2003 (on which the 20-into-1 share consolidation became effective) to 19th March, 2004. The Adjusted Conversion Price also represents a discount of about 45% to the Last Closing Price of HK\$0.55 and a discount of about 32% to the Average Closing Price of HK\$0.44.

The conversion price is also subject to adjustments for, among other matters, subdivision or consolidation of Shares, bonus issues, rights issues and other dilutive events.

Transferability: Subject to the conditions, approvals, requirements and any other provisions of or under (1) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or their rules and regulations; (2) the approval for listing in respect of the Conversion Shares; and (3) all applicable laws and regulations, the Convertible Note may be transferred if, and only if, the transfer is approved by the Company.

Voting: Holders of the Convertible Note will not be entitled to attend or vote at any meetings of the Company by reason of it being a holder of the Convertible Note.

Listing: The Convertible Note will not be listed on the Stock Exchange or any other stock exchange. An application will be made to the Stock Exchange for the listing of and permission to deal in the Conversion Shares.

Events of default: If any of the following events occurs, the holder of the Convertible Note may either give notice to the Company that the Convertible Note is immediately due and payable at its principal amount then outstanding together with any accrued and unpaid interest calculated up to and excluding the date of payment:-

- (a) other than as a result of or in circumstances where an offer made to holders of Shares to acquire all or any proportion of the Shares becoming unconditional, the listing of the Shares (as a class) on the Stock Exchange (i) ceases; or (ii) is suspended for a continuous period of 30 Business Days on each of which the Stock Exchange is generally open for trading due to the default of the Company or any of its directors, officers or employees;
- (b) the Company defaults in performance of any of its material obligations contained in the terms and conditions of the Convertible Note, which default is incapable of remedy or, if capable of remedy, is not remedied with 21 Business Days after notice of such default is sent from the holder of the Convertible Note to the Company;
- (c) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any material part of the undertaking, property, assets or revenues of any member of the Group; or
- (d) an order is made or an effective resolution passed for winding-up of any member of the Group.

The Directors, including the independent non-executive Directors, consider the terms of the Convertible Note to be fair and reasonable to the Shareholders and the issue of the Convertible Note to finance the acquisition pursuant to the Pacific Wins Agreement is in the interest of the Company and the Shareholders as a whole.

Share charge:

Pursuant to the Pacific Wins Agreement, CTH will upon completion of the Pacific Wins Agreement create a share charge over the 500 shares of Pacific Wins (representing 50% equity interest of Pacific Wins) to be acquired by it in pursuance of the Pacific Wins Agreement in favour of Chelson as collateral for the payment obligations of CTH and the Company respectively under the Pacific Wins Promissory Note and the Convertible Note.

Conditions:

Completion of the Pacific Wins Agreement is subject to the following conditions being fulfilled:

- (a) approval of the Pacific Wins Agreement and the transactions contemplated thereunder, including the issue of the Conversion Shares, by the Shareholders in accordance with the Listing Rules; and
- (b) listing of and permission to deal in the Conversion Shares being granted by the Stock Exchange.

Completion shall take place on the third Business Day after fulfillment of the above conditions (or such other time as the parties may agree). If the above conditions are not fulfilled on or prior to 30th June, 2004 (or such later date as may be agreed between CTH and Chelson), the Pacific Wins Agreement shall terminate and none of the parties shall have any claim against the others for costs, damages, compensation or otherwise (save in respect of any antecedent breach thereof).

SHAREHOLDING STRUCTURE

Set out below is the Company's (i) existing shareholding structure; (ii) the shareholding structure upon full conversion of the Convertible Note at the Conversion Price of HK\$0.45 per Share; and (iii) the shareholding structure upon full conversion of the Convertible Note at the Adjusted Conversion Price of HK\$0.30 per Share, prepared on the basis of 127,697,656 Shares in issue as at the date of this announcement:

	Existing		Upon full conversion of the Convertible Note at the Conversion Price of HK\$0.45 per Share		Upon full conversion of the Convertible Note at the Adjusted Conversion Price of HK\$0.3 per Share	
	Shares	% of issued share capital	Shares	% of issued share capital	Shares	% of issued share capital
Lunghin	28,558,196	22.4%	28,558,196	17.7%	28,558,196	16.1%
Chelson	–	–	33,333,333	20.7%	50,000,000	28.1%
Public Shareholders	99,139,460	77.6%	99,139,460	61.6%	99,139,460	55.8%
Total	<u>127,697,656</u>	<u>100.0%</u>	<u>161,030,989</u>	<u>100.0%</u>	<u>177,697,656</u>	<u>100.0%</u>

Save for the Convertible Note to be issued pursuant to the Pacific Wins Agreement and the 1,182,300 outstanding share options, the Company does not have any other outstanding options, warrants or convertible securities in issue.

REASONS FOR THE TRANSACTIONS

The Group is principally engaged in property investment and development and the trading of motorcycles and spare parts and will continue to carry on such businesses. There will not be any changes in the board of Directors as a result of completion of the Tung Fong Hung Agreement and the Pacific Wins Agreement. The Directors consider that the acquisitions pursuant to the Tung Fong Hung Agreement and the Pacific Wins Agreement offer the Group a good business opportunity to diversify into the pharmaceutical business and enlarge the revenue base of the Group. With the established operations of Tung Fong Hung and Jean-Marie, their technical experience and knowledge in the industry, the increasing health awareness of the public and the increase in the number of PRC visitors to Hong Kong as a result of the Individual Visit Scheme, the Directors, including the independent non-executive Directors, are optimistic that the acquisitions pursuant to the Tung Fong Hung Agreement and the Pacific Wins Agreement would enhance the earning potential of the Group and is in the interest of the Company and the Shareholders as a whole. Though the Group does not have experience in managing pharmaceutical business, the Company will retain the key management of Tung Fong Hung Group and Pacific Wins Group so as to capitalise on their extensive experience in the pharmaceutical and health care industry.

GENERAL

The Tung Fong Hung Agreement and the Pacific Wins Agreement are not inter-conditional. The Tung Fong Hung Agreement and the Pacific Wins Agreement together constitute a discloseable transaction of the Company under the Listing Rules. The Company will seek a specific mandate from the Shareholders at the Special General Meeting for the issue of the Conversion Shares. A circular containing details of the Tung Fong Hung Agreement and the Pacific Wins Agreement together with a notice convening the Special General Meeting will be despatched to the Shareholders as soon as practicable.

Trading in the Shares on the Stock Exchange has been suspended from 9:30 a.m. on Monday, 22nd March, 2004 pending release of this announcement. Application has been made to the Stock Exchange for the resumption of trading in the Shares as from 9:30 a.m. on Thursday, 25th March, 2004.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms have the following meanings:

“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday or a Sunday) on which banks are generally open for business in Hong Kong
“Chelson”	Chelson Limited, a company incorporated in the British Virgin Islands and is beneficially wholly owned by CK Life Sciences Int’l., (Holdings) Inc., which holds 50% interest in Pacific Wins
“China Strategic”	China Strategic Holdings Limited, whose issued shares are listed on the Stock Exchange
“Company”	Cheung Tai Hong Holdings Limited, a company incorporated in Bermuda with limited liability, whose issued Shares are listed on the Stock Exchange
“Conversion Shares”	the Shares to be issued upon conversion of the Convertible Note
“Convertible Note”	the convertible note to be issued by the Company pursuant to the Pacific Wins Agreement
“CTH”	Cheung Tai Hong (B.V.I.) Limited, a company incorporated in the British Virgin Islands and is wholly owned by the Company
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hanny”	Hanny Holdings Limited, a company incorporated in Bermuda with limited liabilities and its shares are listed on the Stock Exchange

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jean-Marie”	Jean-Marie Pharmaceutical Company Limited
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Lunghin”	Lunghin Enterprise Inc., which entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, the chairman of the Company
“Pacific Wins”	Pacific Wins Development Ltd., a company incorporated in the British Virgin Islands and is a 50% owned associate company of Tung Fong Hung
“Pacific Wins Agreement”	the sale and purchase agreement dated 19th March, 2004 and made between CTH, the Company and Chelson in relation to the acquisition by CTH of 50% equity interest in Pacific Wins from Chelson
“Pacific Wins Group”	Pacific Wins and its subsidiaries
“Pacific Wins Promissory Note”	the promissory note to be issued by CTH pursuant to the Pacific Wins Agreement
“PRC”	the People’s Republic of China
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holders of Share(s)
“Special General Meeting”	the special general meeting of the Company to be held to consider and, if thought fit, approve, among others, the issue of the Conversion Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tung Fong Hung”	Tong Fong Hung Investment Limited
“Tung Fong Hung Agreement”	the sale and purchase agreement dated 19th March, 2004 and made between CTH and China Strategic in relation to the acquisition by CTH of the entire equity interest in Tung Fong Hung from China Strategic
“Tung Fong Hung Group”	Tung Fong Hung and its subsidiaries
“Tung Fong Hung Promissory Note”	the promissory note to be issued by the Company pursuant to the Tung Fong Hung Agreement
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong

“%” per cent.

By Order of the Board
Tse Cho Tseung
Chairman

Hong Kong, 24th March, 2004

* *For identification purposes only*

“Please also refer to the published version of this announcement in The Standard”