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

If you have sold or transferred all your shares in Cheung Tai Hong Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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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

Financial adviser to Cheung Tai Hong Holdings Limited



A notice convening a special general meeting of Cheung Tai Hong Holdings Limited to be held at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 3rd May, 2004 at 3:00 p.m. is set out on pages 19 and 20 of this circular. A form of proxy for use at the special general meeting is enclosed. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's principal place of business in Hong Kong at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting at the special general meeting or any adjournment thereof if you so desire.

* For identification only

14th April, 2004

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DEFINITIONS

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

“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 with limited liability and is beneficially wholly owned by CK Life Sciences Int’l., (Holdings) Inc., which holds 50% equity interest in Pacific Wins. CK Life Sciences Int’l., (Holdings) Inc., is a company listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8222)
“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

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Jean-Marie”	Jean-Marie Pharmecal Company Limited
“Latest Practicable Date”	8th April, 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“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 with limited liability 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
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of Share(s)
“Special General Meeting”	the special general meeting of the Company to be convened on 3rd May, 2004 to consider and, if thought fit, approve the issue of the Conversion Shares

DEFINITIONS

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tung Fong Hung”	Tung Fong Hung Investment Limited, a company incorporated in the British Virgin Islands with limited liability
“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.

LETTER FROM THE BOARD



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Executive Directors:

Tse Cho Tseung (*Chairman*)

Keung Mei Wah, Jennifer (*Managing Director*)

Independent non-executive Directors

Wong Chi Keung, Alvin

Kwok Ka Lap, Alva (*Deputy Chairman*)

Registered office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

Principal place of business

in Hong Kong:

G/F., GMP Centre

12 Dai Fu Street

Tai Po Industrial Estate

Tai Po

New Territories

Hong Kong

14th April, 2004

To the Shareholders

Dear Sirs,

DISCLOSEABLE TRANSACTION INVOLVING ISSUE OF CONVERTIBLE NOTE

INTRODUCTION

On 24th March, 2004, the Company announced that (i) CTH has entered into the Tung Fong Hung Agreement with China Strategic for the acquisition of the entire equity interest in Tung Fong Hung; and (ii) the Company and CTH have entered into the Pacific Wins Agreement with Chelson for the acquisition of 50% equity interest in Pacific Wins.

The purpose of this circular is to provide you with further information regarding, amongst other things, particulars of the Tung Fong Hung Agreement and the Pacific Wins Agreement and to set out the notice convening the Special General Meeting at which resolution will be proposed to consider and, if thought fit, approve the grant of a specific mandate for the issue of the Conversion Shares.

* For identification purposes only

LETTER FROM THE BOARD

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, the PRC. 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 consolidated 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.

LETTER FROM THE BOARD

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 consolidated 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.

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Subsequent to the signing of the Tung Fong Hung Agreement, CTH and China Strategic have agreed to extend the “due diligence” period referred to in (a) above such that the due diligence review shall be completed to the Company’s satisfaction in all respect on or before 30th April, 2004 (or such later date as may be agreed between CTH and China Strategic).

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 Sciences Int’l. (Holdings) Inc., a company listed on the Growth Enterprise Market of the Stock Exchange. 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

LETTER FROM THE BOARD

has been agreed after arm's length negotiations between the parties having taken into consideration, inter alia, the unaudited consolidated 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.

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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 (i) 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); (ii) a discount of about 18% to the closing price of the Share of HK\$0.55 (the “Last Closing Price”) on 19th March, 2004; and (iii) a premium of 9.8% over the closing price of the Shares of HK\$0.41 on the Latest Practicable Date.

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 Note 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.

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- Transferability:** Subject to the conditions, approvals, requirements and any other provisions of or under (i) the Stock Exchange (and any other stock exchange on which the Shares may be listed at the relevant time) or their rules and regulations; (ii) the approval for listing in respect of the Conversion Shares; and (iii) 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 has been 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:-
- (i) 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;
 - (ii) 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;
 - (iii) 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

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- (iv) 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 in 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.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

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).

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SHAREHOLDING STRUCTURE

Set out below is the Company's (i) shareholding structure as at Latest Practicable Date; (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 Latest Practicable Date:

	As at the Latest Practicable Date		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\$0.30 per Share	
	<i>Shares</i>	<i>% of issued share capital</i>	<i>Shares</i>	<i>% of issued share capital</i>	<i>Shares</i>	<i>% of issued share capital</i>
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

LETTER FROM THE BOARD

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.

SPECIFIC MANDATE TO ISSUE SHARES

A resolution will be put to the Shareholders at the Special General Meeting to approve the granting of a specific mandate to Directors for the issue of the Conversion Shares.

SPECIAL GENERAL MEETING

Set out on pages 19 and 20 of this circular is a notice convening the Special General Meeting which will be held at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 3rd May, 2004 at 3:00 p.m., at which an ordinary resolution will be proposed to approve the grant of a specific mandate for the issue of the Conversion Shares.

Whether or not the Shareholders intend to attend the meeting, they are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it as soon as possible to the Company's principal place of business in Hong Kong at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong, and in any event not later than 48 hours before the time appointed for the holding of the Special General Meeting or any adjournment thereof. Delivery of a form of proxy will not preclude the Shareholders from attending and voting in person at the Special General Meeting or any adjournment thereof should they so desire.

RECOMMENDATIONS

The Directors consider that the acquisitions pursuant to the Tung Fong Hung Agreement and the Pacific Wins Agreement are in the interests of the Group and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to approve the grant of a specific mandate for the issue of the Conversion Shares.

Yours faithfully,
For and on behalf of the Board of
Cheung Tai Hong Holdings Limited
Tse Cho Tseung
Chairman

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. 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 the omission of which would make any statement herein misleading.

2. SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following conversion in full of the Convertible Note based on the Conversion Price of HK\$0.45 per Share will be as follows:

<i>Authorised:</i>	<i>HK\$</i>
<u>40,000,000,000</u> Shares	<u>400,000,000.00</u>

<i>Issued and fully paid:</i>	<i>HK\$</i>
<u>127,697,656</u> Shares as at the Latest Practicable Date	<u>1,276,976.56</u>

Based on the issued share capital as at the Latest Practicable Date and assuming conversion in full of the Convertible Note at the Conversion Price of HK\$0.45 per Share, the issued and fully paid share capital of the Company will be:

	<i>HK\$</i>
<u>127,697,656</u> Shares	<u>1,276,976.56</u>
<u>33,333,333</u> Conversion Shares	<u>333,333.33</u>
<u>161,030,989</u>	<u>1,610,309.89</u>

Based on the issued share capital as at the Latest Practicable Date and assuming conversion in full of the Convertible Note at the Adjusted Conversion Price of HK\$0.30 per Share, the issued and fully paid share capital of the Company will be:

	<i>HK\$</i>
<u>127,697,656</u> Shares	<u>1,276,976.56</u>
<u>50,000,000</u> Conversion Shares	<u>500,000.00</u>
<u>177,697,656</u>	<u>1,776,976.56</u>

3. DISCLOSURE OF DIRECTORS' INTERESTS

Long positions in the Shares:

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Mr. Tse Cho Tseung	Interest of a controlled corporation	28,558,196 (<i>Note</i>)	22.36%

Note: These Shares were beneficially owned by Lunghin, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung.

Save as disclosed herein, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which 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 interests or short positions which they were taken or deemed to have taken under such provisions of the SFO); or were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

4. SUBSTANTIAL SHAREHOLDER

(a) Long positions in the Shares

Name	Capacity	Number of Shares	Approximate percentage of shareholding
Lunghin	Beneficial owner	28,558,196	22.36%
Loyal Concept Ltd.	Security interest	22,425,000 (<i>Notes 1 and 4</i>)	17.56%
Hanny Magnetics Limited	Security interest	5,178,000 (<i>Notes 2 and 4</i>)	4.05%
Hanny Magnetics (B.V.I.) Limited	Interest of controlled corporations	27,603,000 (<i>Notes 3 and 4</i>)	21.61%
Hanny	Interest of controlled corporations	27,603,000 (<i>Notes 3 and 4</i>)	21.61%

Notes:

1. These Shares were pledged to Loyal Concept Ltd. by Lunghin pursuant to a loan agreement and a share mortgage agreement both dated 29th October 2001.
2. These Shares were pledged to Hanny Magnetics Limited by Lunghin pursuant to another share mortgage agreement dated 24th April 2002.
3. Hanny Magnetics (B.V.I.) Limited and Hanny were taken to have an interest in 27,603,000 Shares since Loyal Concept Ltd. and Hanny Magnetics Limited are wholly-owned subsidiaries of Hanny Magnetics (B.V.I.) Limited, which in turn is a wholly-owned subsidiary of Hanny.
4. Save as disclosed herein, Loyal Concept Ltd., Hanny Magnetics Limited, Hanny Magnetics (B.V.I.) Limited and Hanny are not connected with the Company, its directors, chief executive, substantial shareholders or any of its subsidiaries or their respective associates.

As at the Latest Practicable Date, the Directors and the chief executive of the Company are not aware of any person other than a Director or chief executive of the Company who has an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who is expected, directly or indirectly, to be interested in 10 per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

5. LITIGATION

As disclosed in the 2003 annual report of the Company, on 13th July 2001, a writ of summons (the “Writ”) was filed at the Court of First Instance in Hong Kong against Mr. Cheng Yuk Kuen, David (“Mr. Cheng”) in relation to the Group’s investment in Value-Net Limited (“Value-Net”).

As stated in the Writ, inter alia, on 17th February 2000 and 2nd May 2000, Cheung Tai Hong Holdings (Technology) Limited (“CTHHTL”), a wholly-owned subsidiary of the Company, entered into sale and purchase agreements (the “Agreements”) with Mr. Cheng to acquire from Mr. Cheng the respective entire issued share capital of Sunray Power Limited (“Sunray Power”) and Profit View Limited (“Profit View”) for a total consideration of HK\$89,910,000. The principal asset of these companies is their combined 30% interest in the issued share capital of Value-Net. After completion of the Agreements, CTHHTL indirectly holds a 30% interest in the issued share capital of Value-Net. Under the Agreements, Mr. Cheng irrevocably guaranteed to CTHHTL that the consolidated profit of Value-Net, after taxation and minority interest but before exceptional and extraordinary items (the “Net Profit”), for the financial year ended 31st March 2001 would not be less than HK\$16,000,000. Pursuant to the Agreements, CTHHTL has an option by serving written notice on Mr. Cheng requiring Mr. Cheng to purchase the entire issued share capital of Sunray Power and Profit View from CTHHTL at the option price of HK\$89,910,000 in the event that the Net Profit is less than HK\$16,000,000.

In March 2002, the court has issued a judgement against Mr. Cheng for loss and damages in the amount of HK\$89,910,000 for breaching of the Agreements. Up to the Latest Practicable Date, the management of the Company still has difficulty in locating Mr. Cheng and is not certain that the amount can be fully recovered. The amount has not been recognised in the financial statements for the year ended 31st March 2003, being the date to which the latest published audited financial statements of the Group were made up.

Save for the aforesaid, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Group.

6. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors have entered into any service agreement with any member of the Group nor are there any other proposed service agreements which will not expire or be determinable by the Group within one year without payment of compensation (other than statutory compensation).

7. MISCELLANEOUS

- (i) As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31st March 2003, the date to which the latest published audited financial statements of the Group were made up.
- (ii) As at the Latest Practicable Date, there is no contract or arrangement entered into by any member of the Group subsisting at the date thereof in which any Director is materially interested and which is significant in relation to the business of the Group.
- (iii) As at the Latest Practicable Date, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st March 2003, the date to which the latest published audited financial statements of the Group were made up.
- (iv) The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda and the principal place of business of the Company in Hong Kong is at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong.

- (v) The branch share registrars and transfer office of the Company in Hong Kong is Secretaries Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (vi) The company secretary of the Company is Mr. Cheung Yuk Ming. Mr. Cheung Yuk Ming is a fellow member of The Hong Kong Society of Accountants and The Association of Chartered Certified Accountants.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong from the date of this circular up to and including the date of the Special General Meeting:

- (i) the Tung Fong Hung Agreement; and
- (ii) the Pacific Wins Agreement.

NOTICE OF SPECIAL GENERAL MEETING



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

NOTICE IS HEREBY GIVEN that a Special General Meeting of Cheung Tai Hong Holdings Limited (“Company”) will be held at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 3rd May, 2004 at 3:00 p.m., for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“THAT

- (a) the agreement dated 19th March, 2004 (“Agreement”) entered into amongst the Company, Cheung Tai Hong (BVI) Limited (“CTH”) and Chelson Limited (“Chelson”) (copy of which has been produced to the meeting marked “A” and signed for identification by the Chairman thereof) pursuant to which CTH has agreed to purchase from Chelson 50% of the issued share capital of Pacific Wins Development Ltd. at a consideration of HK\$28,000,000 (“Consideration”) be and is hereby approved, confirmed and ratified and the transactions contemplated under the Agreement be and are hereby approved;
- (b) the directors of the Company (“Directors”) be and are hereby authorised to allot and issue shares of HK\$0.01 each in the share capital of the Company which fall to be issued upon conversion of the convertible note in the aggregate principal amount of HK\$15,000,000 to be issued by the Company pursuant to the Agreement as part of the Consideration; and
- (c) the Directors be and are hereby authorised to do all acts, deeds and things which they may in their absolute discretion consider necessary, expedient or desirable to give effect to and implement the transactions contemplated under the Agreement, and to waive compliance from or make and agree such variations of a non-material nature to any of the terms thereof as they may in their discretion consider to be desirable and in the interest of the Company.”

By Order of the Board
Cheung Tai Hong Holdings Limited
Tse Cho Tseung
Chairman

14th April, 2004, Hong Kong

* *For identification only*

NOTICE OF SPECIAL GENERAL MEETING

Registered office:

Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business

in Hong Kong:
G/F, GMP Centre
12 Dai Fu Street
Tai Po Industrial Estate
Tai Po
New Territories
Hong Kong

Notes:

1. A form of proxy for use at the meeting is enclosed. Whether or not you intend to attend the meeting in person, you are urged to complete and return the form of proxy in accordance with the instructions printed thereon.
2. A member of the Company entitled to attend and vote at the meeting by the above notice is entitled to appoint another person as his proxy to attend and vote instead of such member. On a poll, votes may be given either personally or by proxy. A proxy need not be a member of the Company.
3. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, must be deposited at the Company's principal place of business in Hong Kong at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjourned meeting (as the case may be).
4. Completion and return of the form of proxy will not preclude members from attending and voting in person at the meeting or at any adjourned meeting (as the case may be) or on the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
5. Where there are joint holders of any Share, any one of such holders may vote at the meeting, either in person or by proxy, in respect of such Share as if he/she were solely entitled thereto, but if more than one of such joint holders are present at the meeting personally or by proxy, that one of such holders so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect thereof. Several executors or administrators of a deceased member in whose name any Shares stands shall for this purpose be deemed joint holders thereof.



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Form of Proxy for Special General Meeting

I/We⁽¹⁾ _____
of _____

being the registered holder(s) of⁽²⁾ _____ shares of HK\$0.01 each in the capital of Cheung Tai Hong Holdings Limited (the “Company”) hereby appoint⁽³⁾ the Chairman of the Meeting or failing him _____

of _____

as my/our proxy to attend and act for me/us at the Special General Meeting of the Company (the “Meeting”) to be held at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 3rd May, 2004 at 3:00 p.m. and at any adjournment thereof for the purpose of considering and, if thought fit, passing the resolution as set out in the notice convening the Meeting and at such Meeting (or at any adjournment thereof) to vote for me/us and in my/our name(s) in respect of the said resolution as hereunder indicated or, if no such indication is given, as my/our proxy thinks fit.

	FOR ⁽⁴⁾	AGAINST ⁽⁴⁾
Ordinary resolution		

Dated this _____ day of _____ 2004 Signature⁽⁵⁾ _____

Notes:

1. Please insert full name(s) and address(es) in **BLOCK LETTERS**.
2. Please insert the number of shares of HK\$0.01 each in the Company to which this form of proxy relates and registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. If any proxy other than the Chairman is preferred, strike out the words “the Chairman of the Meeting or failing him” herein inserted and insert the full name and address of the proxy desired in the space provided.
4. **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, PLEASE PLACE A “✓” IN THE RELEVANT BOX UNDER “FOR”. IF YOU WISH TO VOTE AGAINST A RESOLUTION, PLEASE PLACE A “✓” IN THE RELEVANT BOX UNDER “AGAINST”.** Failure to complete the boxes will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the Meeting other than those referred to in the notice convening the Meeting.
5. This form of proxy must be signed by you under hand or your attorney duly authorized in writing, or in the case of a corporation, either under your seal or under the hand of your officer, attorney or other person duly authorized.
6. If two or more persons are jointly entitled to a share and are present at the Meeting, only the joint holder whose name stands first in the register of members of the Company in respect of joint holding is entitled to vote at the Meeting.
7. To be valid, this form of proxy together with the power of attorney or other authority (if any) under which it is signed, or a certified copy thereof must be deposited at the Company’s principal place of business in Hong Kong at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong not less than 48 hours before the time appointed for the Meeting or any adjourned meeting (as the case may be).
8. The proxy need not be a member of the Company but must attend the Meeting in person to represent you.
9. Completion and deposit of this form of proxy will not preclude you from attending and voting in person at the Meeting if you so wish.
10. Any alteration made in this form of proxy must be initialled by the person who signs it.

* For identification only