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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)**

**GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES  
AND  
REFRESHMENT OF THE 10 PER CENT LIMIT ON THE GRANT OF  
OPTIONS UNDER THE SHARE OPTION SCHEME  
AND  
AMENDMENT OF BYE-LAWS**

# LETTER FROM THE CHAIRMAN



祥泰行集團有限公司\*

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*(Incorporated in Bermuda with limited liability)*

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*Directors:*

Mr. Tse Cho Tseung (*Chairman*)  
Mr. Kwok Ka Lap, Alva # (*Deputy Chairman*)  
Ms. Cheung Sze Man (*Executive Director*)  
Mr. Wong Chi Keung, Alvin #

*Registered office:*

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

# *Independent non-executive Director*

*Principal place of business*

*in Hong Kong:*  
G/F., GMP Centre  
12 Dai Fu Street  
Tai Po Industrial Estate  
Tai Po, N.T.  
Hong Kong

28th July, 2004

*To the Shareholders of the Company*

Dear Sir or Madam,

**GENERAL MANDATE TO ISSUE AND REPURCHASE SHARES  
AND  
REFRESHMENT OF THE 10 PER CENT LIMIT ON THE GRANT OF  
OPTIONS UNDER THE SHARE OPTION SCHEME  
AND  
AMENDMENT OF BYE-LAWS**

**1. INTRODUCTION**

It was announced on 23rd July, 2004 that at the annual general meeting to be held on 31st August, 2004 (the “Annual General Meeting”), resolutions will be proposed among other things to (i) grant to the directors of the Company (the “Directors”) a general mandate to issue shares of HK\$0.01 each of the Company (the “Shares”); (ii) a general mandate to repurchase Shares (the “Repurchase Mandate”); (iii) refreshment of the 10 per cent limit on the grant of options under the share option scheme of the company adopted on 26th August, 2002 (“Scheme”); and (iv) amend the Bye-laws of the Company.

\* *For identification purpose only*

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### 2. PROPOSED REFRESHMENT

At the special general meeting of the Company held on 26th August, 2002, being the date of the adoption of the Share Option Scheme, the maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and all the other share option scheme(s) of the Company is 11,718,765 Shares, being 10 per cent of the Shares in issue on that date having restated pursuant to the terms of the Share Option Scheme and in compliance with chapter 17 of the Listing Rules for the capital reorganisation passed in a shareholders' meeting on 14th April, 2003 ("Scheme Mandate Limit").

As at the Latest Practicable Date, options carrying the rights to subscribe for up to a total of 11,665,000 Shares and 594,450 Shares have been respectively granted under the Scheme and the other scheme previously adopted on 28th February 1994 ("the Other Scheme"). The Other Scheme has been terminated upon the adoption of the Share Option Scheme. No further options will be granted under the Other Scheme. As at the Latest Practicable Date, there is a total of 27,300 Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Other Scheme. Details of the options granted under the Scheme as at the Latest Practicable Date are set out in the table below. Unless the Scheme Mandate Limit is refreshed, only up to 53,765 Shares may be issued pursuant to the grant of further options under the Scheme. The Directors may grant further options carrying the rights to subscribe for not more than 26,465 Shares before the Annual General Meeting. The Directors consider that it is in the interests of the Company to refresh the Scheme Mandate Limit to permit the grant of further options under the Share Option Scheme so as to provide incentives to, and recognize the contributions of, the Group's employees and other selected grantees.

#### Options under the Scheme

Options that:	Corresponding number of Shares
(1) have been granted	11,665,000
(2) have been exercised	11,665,000
(3) have lapsed	0
(4) have been cancelled	0

#### Outstanding options as at the Latest Practicable Date

**Total: 0**

As at 27th July, 2004 (the "Latest Practicable Date"), the issued share capital of the Company comprised 128,852,656 Shares.

It is proposed that subject to the approval of the Shareholders at the Annual General Meeting and such other requirements prescribed under the Listing Rules, the Scheme Mandate Limit will be refreshed ("Proposed Refreshment") so that the total number of securities which may be issued upon exercise of all options to be granted under the Share Option Scheme and all other share option schemes of the Company under the Scheme Mandate Limit as refreshed, shall not exceed 10 per cent of the Shares in issue as at the date of the approval of the Proposed Refreshment by the Shareholders at the Annual General Meeting and, options previously granted under the Scheme and/or any other share option scheme(s) of the Company (including without limitation those

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outstanding, cancelled, lapsed or exercised in accordance with the Scheme or such other scheme(s) of the Company) will not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed.

Pursuant to the Listing Rules, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company at any time will not exceed 30 per cent of the Shares in issue from time to time. No options shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30 per cent limit being exceeded.

As at the Latest Practicable Date, there is a total of 27,300 Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company, which does not exceed 38,655,796 Shares, being 30 per cent of the Shares in issue.

Assuming that no further Shares will be issued or repurchased prior to the date of approving the Proposed Refreshment by the Shareholders, the maximum number of Shares which fall to be issued upon exercise of all options that may be granted by the Company under the refreshed Scheme Mandate Limit would be 12,885,265 Shares, representing 10 per cent of the Shares in issue as at the date of the approval of the Proposed Refreshment by the Shareholders at the Annual General Meeting.

### **Conditions**

As required by the Scheme and the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), an ordinary resolution will be proposed at the Annual General Meeting to approve the Proposed Refreshment.

The adoption of the refreshed Scheme Mandate Limit is conditional upon:

- (a) the Shareholders passing an ordinary resolution to approve the Proposed Refreshment at the Annual General Meeting; and
- (b) the Stock Exchange granting the approval of the listing of, and permission to deal in, the Shares not exceeding 10% of the issued share capital of the Company as at the date of approval to be issued pursuant to the exercise of any options that may be granted under the Scheme under the refreshed Scheme Mandate Limit.

### **Application for Listing**

An application will be made to the Stock Exchange in respect of the approval above.

### **3. REPURCHASE MANDATE**

The Listing Rules permit companies with a primary listing on the Stock Exchange to repurchase their own shares, subject to certain restrictions, on the Stock Exchange. At the Annual General Meeting an ordinary resolution will be proposed to grant to the Directors a general mandate to repurchase up to 10% of the Shares of the Company (“Repurchase Mandate”) in issue as at the date of passing the relevant resolution. The Company is required by the Listing Rules to

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send to its shareholders an explanatory statement containing all the information reasonably necessary to enable them to make an informed decision on whether to vote for or against the Repurchase Mandate. For this purpose, the explanatory statement required by the Listing Rules is set out in Appendix I.

#### 4. ISSUANCE MANDATE

An ordinary resolution will be proposed at Annual General Meeting to grant to the Directors a general mandate to issue Shares not exceeding 20% of the issued share capital of the Company (“Issuance Mandate”) as at the date of passing the relevant resolutions and such number of Shares repurchased by the Company pursuant to the Repurchase Mandate. The obtaining of such mandate is to ensure flexibility and discretion to the Directors to allot and issue new shares in accordance with the Listing Rules. The Directors wish to state that they have no immediate plan to issue any new Shares of the Company.

#### 5. AMENDMENT OF BYE-LAWS

Certain amendments have been made to the Listing Rules relating to corporate governance issues which became effective on 31st March, 2004 subject to certain transitional arrangements, and these amendments require that the Bye-laws of the Company be amended to give effect to those changes. Summary of the amendments is set out in Appendix II. A special resolution will be proposed at the Annual General Meeting to approve such amendments.

#### 6. GENERAL

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.

#### 7. RECOMMENDATION

The Directors believe that the granting of the mandates to issue Shares and repurchase Shares and the Proposed Refreshment are in the best interests of the Company and the Shareholders as a whole and the amendment of Bye-laws are necessary to reflect changes in the Listing Rules. The Directors therefore recommend Shareholders to vote in favour of the resolutions to approve the same at the Annual General Meeting to be convened at 10:30 a.m. at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong on 31st August, 2004. Notice of the Annual General Meeting accompanies the annual report of the Company for the year ended 31st March, 2004.

Yours faithfully,  
**Tse Cho Tseung**  
*Chairman*

This Appendix sets out the explanatory statement required to be given in connection with the proposed grant of the Repurchase Mandate in compliance with the Listing Rules. This document gives all the information reasonably necessary to enable Shareholders to make an informed decision on whether to vote for or against the resolution to approve the Repurchase Mandate at the Annual General Meeting.

## **1. SHARE CAPITAL**

As at the Latest Practicable Date, the issued share capital of the Company comprised 128,852,656 Shares. As at such date, there were outstanding options granted under the Company's executive share option scheme carrying rights to subscribe for 27,300 Shares (the "Options").

Subject to the passing of the relevant ordinary resolution to approve the Repurchase Mandate and on the basis that no further Shares are issued or repurchased and none of the Options are exercised prior to the Annual General Meeting, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 12,885,265 Shares representing 10% of the issued share capital of the Company. If all outstanding subscription rights attaching to the Options were exercised in full and 27,300 Shares were issued and no other Shares are issued or repurchased before the date of the Annual General Meeting, the Company would be allowed under the Repurchase Mandate to repurchase a maximum of 12,887,995 Shares representing 10.002% of the issued share capital of the Company.

## **2. REASONS FOR REPURCHASE**

The Directors believe that the Repurchase Mandate affords the Company the flexibility and ability in pursuing the best interests of the Company and its Shareholders. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset and/or earnings per Share and will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders.

## **3. FUNDING OF REPURCHASES**

Repurchase would be funded entirely from the Company's available cash flow or working capital facilities which will be funds legally available in the share premium and capital redemption reserve accounts for the purpose and in accordance with the Memorandum of Association and the Bye-laws and the laws of Bermuda.

The Directors propose that such repurchase of Shares would be appropriately funded by the Company's internal resources and/or available banking facilities. As compared with the position disclosed in the audited accounts contained in the annual report for the year ended 31st March, 2004, the Directors consider that there might be material adverse impact on the working capital requirements or gearing position of the Company in the event that the Repurchase Mandate were exercised in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

**4. UNDERTAKING**

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the laws of Bermuda.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, their associates (as defined in the Listing Rules) have any present intention to sell any Shares to the Company or its subsidiaries under the Repurchase Mandate if such is approved by the Shareholders.

As at the Latest Practicable Date, no connected person (as defined in the Listing Rules) had notified the Company that it has a present intention to sell any of the Shares to the Company, or has undertaken not to do so, in the event that the Repurchase Mandate is approved by the Shareholders.

**5. TAKEOVERS CODE**

If, on the exercise of the power to repurchase Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of Rule 32 of the Takeovers Code. As a result, a Shareholder or a group of Shareholders acting in concert (within the meaning under the Takeovers Code), depending on the level of increase in the Shareholder's interest, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 or the Takeovers Code.

As at the Latest Practicable Date, Lunghin Enterprise Inc., which is the only substantial shareholder and whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, a Director, was beneficially interested in 28,558,196 Shares, representing 22.16% of the issued share capital of the Company. In the event that the Directors exercise in full the power to repurchase Shares in accordance with the Repurchase Mandate, then (if the present shareholdings otherwise remain the same) the shareholding of Lunghin Enterprise Inc. in the Company would be increased to approximately 24.63% of the issued share capital of the Company. At present, the Directors are not aware of any circumstances which will give rise to an obligation to make a mandatory offer under Rule 26 and 32 of the Takeovers Code in the event that the Directors exercise the power to repurchase Shares pursuant to the Repurchase Mandate.

**6. SHARE PRICE**

The highest and lowest prices at which the Shares were traded on the Stock Exchange in each of the previous twelve months immediately prior to the Latest Practicable Date were as follows:

	<b>Shares</b>	
	<b>Highest</b>	<b>Lowest</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>2003</b>		
July	0.170	0.160
August	0.175	0.165
September	0.380	0.178
October	0.320	0.235
November	0.270	0.243
December	0.250	0.150
<b>2004</b>		
January	0.750	0.195
February	0.830	0.430
March	0.670	0.325
April	0.540	0.255
May	0.285	0.200
June	0.280	0.201
July to the Latest Practicable Date	0.300	0.211

**REPURCHASES OF SHARES MADE BY THE COMPANY**

The Company has not repurchased any Shares (whether on the Stock Exchange or otherwise) in the six months preceding the Latest Practicable Date.



## **AMENDMENTS TO EXISTING BYE-LAWS**

The Stock Exchange has revised the Listing Rules and the amended Listing Rules have become effective on 31 March 2004. The Directors therefore propose to make certain amendments to the Bye-laws in compliance with the amended Listing Rules.

The following is a summary of the major proposed amendments to the Bye-laws that are required under the revised Listing Rules:

### **Bye-law 1 – Interpretation**

New definition of “associate” will be added to bring the Bye-laws up to date with the Listing Rules.

### **Bye-law 76(2) – Voting restrictions under Listing Rules**

Bye-law 76(2) will be added pursuant to the revised Listing Rules so that where the Company has knowledge that any shareholder is subject to voting restrictions under the Listing Rules, any votes cast by or on behalf of such shareholder in contravention of such restriction shall not be counted.

### **Bye-law 86(4) – Removal of Director**

Bye-law 86(4) will be amended to allow the removal of a Director by ordinary resolution.

### **Bye-law 88 – Appointment of Directors**

Bye-law 88 will be amended to specify the lodgement period of the nomination of directors by shareholders, which will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days prior to the date of such meeting.

### **Bye-law 103(1), (2) and (3) – Director’s interests**

Bye-law 103(1), (2) and (3) will be amended to provide that Directors shall not vote for transactions in which they or their associates have a material interest. The new interpretation of “associate(s)” under the revised Listing Rules will also be adopted. Bye-law 103(1) will also be amended so that a Director’s vote shall not be counted in the quorum present at a meeting at which any contract or arrangement in which he or his associate(s) is materially interested is considered.

**Bye-law 154(2) – Auditors**

Bye-law 154(2) will be amended to provide that a person other than a retiring auditor shall not be capable of being appointed as auditors at an annual general meeting unless notice of an intention to nominate that person to the office has been given to the Company not less than 21 days (instead of 14 days) before the annual general meeting.

A special resolution will be proposed at the AGM to seek the Shareholders' approval of the above amendments to the Bye-laws of the Company.