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If you are in doubt as to any aspect about this circular or as to the action you should take, 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 and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or 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)**

**PLACING OF NEW SHARES  
AND  
PLACING OF CONVERTIBLE NOTES**

A notice convening a special general meeting of Cheung Tai Hong Holdings Limited to be held at 10:30 a.m. on 24th January, 2005 at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong is set out on pages 17 and 18 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 special general meeting in person and vote at such meeting, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible 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 but in any event not less than 48 hours before the time appointed for the holding of the special general meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting or any adjourned meeting if you so wish.

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## DEFINITIONS

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

“1228 Placing”	the placing of 25,000,000 new Shares, on a best effort basis, by the Placing Agent pursuant to the 1228 Placing Agreement
“1228 Placing Agreement”	the conditional placing agreement dated 28th December, 2004 entered into between the Company and the Placing Agent in relation to the 1228 Placing, subject to the terms and conditions contained therein
“Announcement”	the announcement issued by the Company dated 15th December, 2004 in relation to the Share Placing and the Convertible Note Placing
“Associates”	has the meaning ascribed thereto under the Listing Rules
“Board”	board of Directors
“Company”	Cheung Tai Hong Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
“Conversion Shares”	new Shares which would fall to be issued by the Company upon conversion of the principal amount of the Convertible Notes at the then prevailing conversion price
“Convertible Notes”	the HK\$100 million 2% 3-year convertible notes proposed to be issued by the Company pursuant to the Convertible Note Placing Agreement, which entitles the holder thereof to convert the principal amount thereof into Shares at an initial conversion price of HK\$0.42 per Share, subject to adjustments
“Convertible Note Placing Agreement”	the conditional convertible note placing agreement dated 15th December, 2004 entered into between the Company and the Placing Agent in relation to the Convertible Note Placing, subject to the terms and conditions contained therein
“Convertible Note Placing Completion”	completion of the Convertible Note Placing

## DEFINITIONS

“Convertible Note Placing”	the placing of the Convertible Notes, on a best effort basis, by the Placing Agent pursuant to the Convertible Note Placing Agreement
“Convertible Note Subscriber(s)”	any individual, institutional or other professional investor(s) procured by the Placing Agent to purchase any of the Convertible Notes pursuant to the Placing Agent’s obligations under the Convertible Note Placing Agreement
“Director(s)”	director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Initial Conversion Price”	HK\$0.42 per Share (subject to adjustments)
“Latest Practicable Date”	4th January, 2005, being the latest practicable date prior to the printing of this circular for ascertaining information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minimum Closing Price”	HK\$0.30 per Share
“Pacific Wins Agreement”	the sale and purchase agreement dated 19th March, 2004 entered into by the Company in relation to the acquisition of 50% equity interest in Pacific Wins Development Ltd. Pacific Wins Development Ltd and its subsidiaries are principally engaged in the production, sales and distribution of western pharmaceutical products
“Pacific Wins Convertible Notes”	the HK\$15 million 2% convertible notes due 2006 issued by the Company on 6th May, 2004 pursuant to the Pacific Wins Agreement, which have been fully converted into Shares subsequent to the publication of the Announcement

## DEFINITIONS

“Placee(s)”	any individual, institutional or other professional investor(s) procured by the Placing Agent to purchase any of the 25,000,000 new Shares pursuant to the Placing Agent’s obligations under the 1228 Placing Agreement
“Placing Agent”	Tai Fook Securities Company Limited, a licensed corporation to carry on regulated activities 1, 3 and 4 for the purpose of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Placing Shares”	a total of 150,000,000 new Shares
“Placing Share Subscriber(s)”	any individual, institutional or other professional investor(s) procured by the Placing Agent to purchase any of the Placing Shares pursuant to the Placing Agent’s obligations under the Share Placing Agreement
“SFC”	Securities and Futures Commission
“SGM”	a special general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Share Placing and the Convertible Note Placing
“Share(s)”	fully paid ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Share Placing Agreement”	the conditional share placing agreement dated 15th December, 2004 entered into between the Company and the Placing Agent in relation to the Share Placing, subject to the terms and conditions contained therein
“Share Placing Completion”	completion of the Share Placing
“Share Placing”	the placing of the Placing Shares, on a best effort basis, by the Placing Agent pursuant to the Share Placing Agreement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Share Options”	share options granted under the Share Option Schemes
“Share Option Schemes”	the share option schemes adopted and approved by the Company on 28th February, 1994 (as subsequently terminated on 26th August, 2002) and 26th August, 2002 respectively
“Takeovers Code”	Code on Takeovers and Mergers

## LETTER FROM THE BOARD



祥泰行集團有限公司\*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

*Executive Directors:*

Lo Lin Shing, Simon (*Chairman*)

Tse Cho Tseung

Cheung Sze Man

*Registered office:*

Clarendon House

Church Street

Hamilton HM 11

Bermuda

*Independent non-executive Directors:*

Ho Hau Chong, Norman (*Deputy Chairman*)

Wong Chi Keung, Alvin

Kwok Ka Lap, Alva

Zhang Shichen

*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

6th January, 2005

*To the Shareholders and for information only,  
to the holders of Share Options*

Dear Sir or Madam,

### PLACING OF NEW SHARES AND PLACING OF CONVERTIBLE NOTES

#### INTRODUCTION

On 15th December, 2004, the Company entered into the Share Placing Agreement with the Placing Agent in relation to the appointment of the Placing Agent for the placing of 150,000,000 new Shares at the issue price of HK\$0.4 per Share on a best effort basis to not less than six Placing Share Subscribers. The Placing Share Subscribers and their respective ultimate beneficial owners will be independent third parties not connected with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company.

On 15th December, 2004, the Company also entered into the Convertible Note Placing Agreement with the Placing Agent in relation to the appointment of the Placing Agent for the placing of HK\$100 million 2% 3-year convertible notes at an initial conversion price of HK\$0.42 per Share on a best effort basis to not less than six Convertible Note Subscribers.

\* For identification purpose only

## LETTER FROM THE BOARD

The Convertible Note Subscribers and their respective ultimate beneficial owners will be independent third parties not connected with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company.

The Share Placing and the Convertible Note Placing are not inter-conditional with each other.

As disclosed in the announcement of the Company dated 28th December, 2004, on 28th December, 2004, the Company entered into the 1228 Placing Agreement with the Placing Agent in relation to the appointment of the Placing Agent for the placing of 25,000,000 new Shares to be issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 31st August, 2004, at the issue price of HK\$0.81 per Share, on a best effort basis to not less than six Places. All of the Places and their respective ultimate beneficial owners will be independent third parties not connected with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company. An application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the 25,000,000 new Shares to be issued under the 1228 Placing Agreement. As at the Latest Practicable Date, the 1228 Placing has not been completed.

As at the date of the Announcement, the principal amount of the Pacific Wins Convertible Notes outstanding was HK\$15 million. After the publication of the Announcement, the Company received conversion notices on 17th December, 2004, 20th December, 2004, 21st December, 2004 and 22nd December, 2004 respectively from the holder of the Pacific Wins Convertible Notes to fully convert all the Pacific Wins Convertible Notes outstanding at a conversion price of HK\$0.45 per Share. As a result, there were not any Pacific Wins Convertible Notes outstanding as at the Latest Practicable Date. Besides, save for the outstanding share options which have already been granted under the Share Option Schemes, the Company does not have any other securities which are convertible into Shares as at the Latest Practicable Date.

The Placing Shares represent approximately 116.4% of the issued share capital of the Company as at the date of the Announcement and approximately 92.5% of the issued share capital of the Company as at the Latest Practicable Date. Assuming all the Placing Shares are successfully placed by the Placing Agent and there will be no change in the issued share capital of the Company, the Placing Shares represent approximately 48.0% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and approximately 27.3% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and Conversion Shares (assuming all the Convertible Notes are successfully placed by the Placing Agent and the Convertible Notes are fully converted at the Initial Conversion Price).

Assuming all the Convertible Notes are successfully placed by the Placing Agent, upon full conversion of the Convertible Notes at the Initial Conversion Price, a total of 238,095,238 new Shares will be issued, representing approximately 184.8% of the issued share capital of the Company as at the date of the Announcement and approximately 146.8% of the issued share capital of the Company as at the Latest Practicable Date (or

## LETTER FROM THE BOARD

upon full conversion of the Convertible Notes at the Minimum Closing Price, a total of 333,333,333 new Shares will be issued, representing approximately 258.7% of the issued share capital of the Company as at the date of Announcement and approximately 205.5% of the issued share capital of the Company as at the Latest Practicable Date). Further assuming there will be no change in the issued share capital of the Company, the Conversion Shares represent approximately 59.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Initial Conversion Price (or approximately 67.3% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Minimum Closing Price) and approximately 43.3% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Initial Conversion Price and the Placing Shares (or approximately 51.6% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Minimum Closing Price and the Placing Shares), assuming that all the Placing Shares are successfully placed by the Placing Agent.

The purpose of this circular is to provide you with further information on the Share Placing Agreement and the Convertible Note Placing Agreement and to give you notice of the SGM at which resolutions approving the Share Placing and the Convertible Note Placing will be sought.

### **PLACING AGENT**

Mr. Lo Lin Shing, Simon, is the chairman and executive director of the Company. Mr. Lo is also the deputy chairman and beneficially interested in approximately 13% of the issued share capital of Tai Fook Securities Group Limited ("TFSGL"), the holding company of the Placing Agent and the shares of which are listed on the Stock Exchange. Mr. Ho Hau Chong, Norman, the deputy chairman and independent non-executive director of the Company, is a non-executive director of TFSGL. As at the Latest Practicable Date, each of Mr. Lo, Mr. Ho and their respective Associates does not hold any Shares. Save for the aforesaid, the Placing Agent is an independent third party not connected with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company. The Placing Agent will receive a placing commission of 2.5% on both the gross proceeds from the Share Placing and the Convertible Note Placing, which will be payable by the Company upon Share Placing Completion and Convertible Note Placing Completion respectively.

### **THE SHARE PLACING AGREEMENT**

On 15th December, 2004, the Company entered into the Share Placing Agreement with the Placing Agent in relation to the placing of 150,000,000 new Shares on a best effort basis.

### **Placing Share Subscribers**

The Placing Shares will be placed to not less than six Placing Share Subscribers, who are individual, corporate and/or institutional investors. No Placing Shares will be placed to any of the Convertible Note Subscribers. All the Placing Share Subscribers and



## LETTER FROM THE BOARD

their respective ultimate beneficial owners will be independent of, not connected and not acting in concert with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company. None of the Placing Share Subscribers will become a controlling shareholder (as defined under the Listing Rules) of the Company as a result of the Share Placing.

### Placing Shares

Pursuant to the Share Placing Agreement, the Placing Agent agrees to place a total of 150,000,000 new Shares on a best effort basis, representing approximately 116.4% of the issued share capital of the Company as at the date of the Announcement and approximately 92.5% of the issued share capital of the Company as at the Latest Practicable Date. Assuming all the Placing Shares are successfully placed by the Placing Agent and there will be no change in the issued share capital of the Company, the Placing Shares represent approximately 48.0% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and approximately 27.3% of the issued share capital of the Company as enlarged by the issue of the Placing Shares and the Conversion Shares (assuming all the Convertible Notes are successfully placed by the Placing Agent and the Convertible Notes are fully converted at the Initial Conversion Price). The Company will make a further announcement in the event that the number of Placing Shares finally placed is less than 150,000,000.

### Placing price

The issue price per Placing Share is HK\$0.40, which represents:

- a discount of approximately 13.0% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on 10th December, 2004, being the last trading day immediately before trading in the Shares was suspended pending the release of the Announcement;
- a premium of approximately 5.3% over the average closing price of HK\$0.38 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 10th December, 2004;
- a premium of approximately 17.6% over the average closing price of HK\$0.34 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including 10th December, 2004;
- a discount of approximately 82.2% to the closing price of HK\$2.25 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- a discount of approximately 50.0% to the unaudited net asset value per Share of approximately HK\$0.80 as at 30th September, 2004, based on the issued share capital of the Company as at the Latest Practicable Date.

The Directors consider the issue price of HK\$0.40 per Placing Share is fair and reasonable.

## LETTER FROM THE BOARD

### Conditions of the Share Placing

Completion of the Share Placing is conditional upon:-

- (i) the passing of the ordinary resolution(s) by the Shareholders at the SGM approving the Share Placing and the issue and allotment of the new Shares under the Share Placing;
- (ii) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the Placing Shares;
- (iii) the compliance of any other requirements under the Listing Rules and Takeovers Code or otherwise of the Stock Exchange and the SFC which requires compliance in relation to the Share Placing and the issue of the Placing Shares;
- (iv) (where required) the Bermuda Monetary Authority granting its permission to the issue and allotment of the Placing Shares; and
- (v) the obtaining of all consents from any relevant persons which are necessary or desirable in connection with the Share Placing (and, where such consents are given subject to conditions, such conditions are on terms as may be reasonably acceptable to the Placing Agent and the Company).

Save for conditions (i), (ii) and (iii), all the conditions for the completion of the Share Placing have been fulfilled as at the Latest Practicable Date. If any of the conditions (i), (ii) or (iii) has not been fulfilled by 18th February, 2005 (or such other date as the Company and the Placing Agent may agree in writing), the Share Placing Agreement shall lapse and be terminated and all rights, obligations and liabilities of all parties thereunder in relation to the Share Placing shall cease and determine and no party shall have any claim against the other under the Share Placing Agreement except for antecedent breach.

### Completion

Share Placing Completion is to take place on the fifth business day after the date upon which the conditions stated in the section headed "Conditions of the Share Placing" above are fulfilled or such other date as the Company and the Placing Agent may agree.

### Listing and ranking of Placing Shares

An application has been made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Placing Shares. The Placing Shares, when fully paid, will rank pari passu in all respects with all the existing Shares outstanding at the date of issue of the Placing Shares.

## LETTER FROM THE BOARD

### THE CONVERTIBLE NOTE PLACING AGREEMENT

On 15th December, 2004, the Company entered into the Convertible Note Placing Agreement with the Placing Agent in relation to the placing of HK\$100 million 2% 3-year convertible notes on a best effort basis.

#### Convertible Note Subscribers

The Convertible Notes will be placed to not less than six Convertible Note Subscribers, who are individual, corporate and/or institutional investors. No Convertible Notes will be placed to any of the Placing Share Subscribers. All the Convertible Note Subscribers and their respective ultimate beneficial owners will be independent of, not connected and not acting in concert with the Company and its connected persons (as defined under the Listing Rules), and are not connected persons of the Company.

#### Principal terms of the Convertible Notes

Issuer:	The Company
Aggregate principal amount:	Initially, HK\$100 million. The Company will make a further announcement in the event that the principal amount of the Convertible Notes finally placed is less than HK\$100 million
Initial Conversion Price and events of adjustments:	HK\$0.42 per Share, subject to adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution, rights issue, and, if and whenever the average closing price per Share for the 20 consecutive trading days immediately preceding the date falling on the first or second anniversary of the date of issue of the Convertible Notes is lower than the then prevailing conversion price, such conversion price shall be immediately adjusted to such average closing price, provided that such average closing price shall not fall below the Minimum Closing Price. If such average closing price falls below the Minimum Closing Price, the conversion price shall be adjusted to HK\$0.30 per Share
Interest rate:	2% per annum, accrued and payable by the Company on a half-yearly basis in arrears
Maturity:	The third anniversary from the date of issue of the Convertible Notes
Redemption:	Unless previously converted and cancelled, the Company will redeem each Convertible Note on the maturity date at the principal amount of the outstanding Convertible Notes

## LETTER FROM THE BOARD

- Transferability:** The Convertible Notes are freely transferable but may not be transferred to a connected person of the Company without the prior written consent of the Company
- Conversion period:** The holders of the Convertible Notes shall have the right to convert on any business day commencing from the day immediately following the date of issue of the Convertible Notes up to 4:00 p.m. on the date of maturity of the Convertible Notes, the whole or any part (in an amount or integral multiple of HK\$1,000,000) of the principal amount of the Convertible Notes into Shares at the then prevailing conversion price
- Voting:** The holders of the Convertible Notes will not be entitled to receive notice of, attend or vote at any meeting of the Company by reason only of it being the holders of the Convertible Notes
- Listing:** No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application has been made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued on exercise of the conversion rights attaching to the Convertible Notes
- Ranking:** The Conversion Shares will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the Convertible Notes

### **Conversion Shares**

Assuming all the Convertible Notes are successfully placed by the Placing Agent, upon full conversion of the Convertible Notes at the initial conversion price of HK\$0.42 per Share, a total of 238,095,238 new Shares will be issued, representing approximately 184.8% of the issued share capital of the Company as at the date of the Announcement and approximately 146.8% of the issued share capital of the Company as at the Latest Practicable Date (or upon full conversion of the Convertible Notes at the Minimum Closing Price, a total of 333,333,333 new Shares will be issued, representing approximately 258.7% of the issued share capital of the Company as at the date of the Announcement and approximately 205.5% of the issued share capital of the Company as at the Latest Practicable Date). Further assuming there will be no change in the issued share capital of the Company, the Conversion Shares represent approximately 59.5% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Initial Conversion Price (or approximately 67.3% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Minimum Closing Price) and approximately 43.3% of the issued share capital of the Company as enlarged by both the issue of the Conversion Shares at the Initial Conversion Price and the Placing Shares (or approximately 51.6% of the issued share capital of the Company as enlarged by the issue of the Conversion Shares at the Minimum Closing Price and the Placing Shares), assuming that all the Placing Shares are successfully placed by the Placing Agent.

## LETTER FROM THE BOARD

### Conversion price

The initial conversion price of HK\$0.42 per Share represents:

- a discount of approximately 8.7% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on 10th December, 2004, being the last trading day immediately before trading in the Shares was suspended pending the release of the Announcement;
- a premium of approximately 10.5% over the average closing price of HK\$0.38 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 10th December, 2004;
- a premium of approximately 23.5% over the average closing price of HK\$0.34 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including 10th December, 2004;
- a discount of approximately 81.3% to the closing price of HK\$2.25 per Share as quoted on the Stock Exchange as at the Latest Practicable Date; and
- a discount of approximately 47.5% to the unaudited net asset value per Share of approximately HK\$0.80 as at 30th September, 2004, based on the issued share capital of the Company as at the Latest Practicable Date.

The Minimum Closing Price of HK\$0.30 represents:

- a discount of approximately 34.8% to the closing price of HK\$0.46 per Share as quoted on the Stock Exchange on 10th December, 2004, being the last trading day immediately before trading in the Shares was suspended pending the release of the Announcement;
- a discount of approximately 21.1% to the average closing price of HK\$0.38 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 10th December, 2004;
- a discount of approximately 11.8% to the average closing price of HK\$0.34 per Share as quoted on the Stock Exchange for the last 30 trading days up to and including 10th December, 2004;
- a discount of approximately 86.7% to the closing price of HK\$2.25 per Share as quoted on the Stock Exchange at the Latest Practicable Date; and
- a discount of approximately 62.5% to the unaudited net asset value per Share of approximately HK\$0.80 as at 30th September, 2004, based on the issued share capital of the Company as at the Latest Practicable Date.

The Initial Conversion Price and the Minimum Closing Price adjustment mechanism was commercially agreed and arrived at after arm's length negotiation between the Placing Agent and the Company. The inclusion of such an adjustment clause in the terms of the Convertible Notes principally served to preserve both the interests of each of the Convertible Note Subscribers and the Company. The Directors consider the terms of the Convertible Notes, including (i) the initial conversion price of HK\$0.42 per Share; and (ii) the Minimum Closing Price adjustment mechanism, are fair and reasonable.

## LETTER FROM THE BOARD

### Conditions of the Convertible Note Placing

Completion of the Convertible Note Placing is conditional upon:-

- (i) the passing of the ordinary resolution(s) by the Shareholders at the SGM approving the Convertible Note Placing and the creation and issue of the Convertible Notes under the Convertible Note Placing and the issue and allotment of the Conversion Shares;
- (ii) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the Conversion Shares;
- (iii) the compliance of any other requirements under the Listing Rules and Takeovers Code or otherwise of the Stock Exchange and the SFC which requires compliance in relation to the Convertible Note Placing, the issue of the Convertible Notes and the issue and allotment of the Conversion Shares;
- (iv) (where required) the Bermuda Monetary Authority granting its permission to the issue of the Convertible Notes and the issue and allotment of the Conversion Shares; and
- (v) the obtaining of all consents from any relevant persons which are necessary or desirable in connection with the Convertible Note Placing and the issue of the Convertible Notes (and, where such consents are given subject to conditions, such conditions are on terms as may be reasonably acceptable to the Placing Agent and the Company).

Save for conditions (i), (ii) and (iii), all the conditions for the completion of the Convertible Note Placing have been fulfilled as at the Latest Practicable Date. If any of the conditions (i), (ii) and (iii) has not been fulfilled by 18th February, 2005 (or such other date as the parties may agree in writing), the Convertible Note Placing Agreement shall lapse and be terminated and all rights, obligations and liabilities of all parties thereunder in relation to the Convertible Note Placing shall cease and determine and no party shall have any claim against the other under the Convertible Note Placing Agreement except for antecedent breach.

### SHAREHOLDING STRUCTURE

Set out below is a table showing (i) the Company's shareholding structure as at the date of the Announcement; (ii) the Company's shareholding structure as at the Latest Practicable Date; (iii) the Company's shareholding structure upon completion of 1228 Placing but before Share Placing Completion and any conversion of the Convertible Notes; (iv) the Company's shareholding structure upon completion of 1228 Placing and Share Placing but before any conversion of the Convertible Notes; (v) the Company's shareholding structure upon completion of 1228 Placing and Share Placing and full conversion of the Convertible Notes at the Initial Conversion Price; and (vi) the Company's shareholding structure upon completion of 1228 Placing and Share Placing and full conversion of the Convertible Notes at the Minimum Closing Price, assuming that (i) all the 25,000,000 new Shares under the 1228 Placing are successfully placed by the Placing Agent; (ii) all the 150,000,000 Placing Shares are successfully placed by the Placing Agent; (iii) all the

## LETTER FROM THE BOARD

Convertible Notes in an aggregate principal amount of HK\$100 million are successfully placed by the Placing Agent; and (iv) there will be no change to the existing issued share capital of the Company:

	As at the date of the Announcement		As at the Latest Practicable Date		Upon completion of 1228 Placing but before Share Placing Completion and any conversion of the Convertible Notes		Upon completion of 1228 Placing and Share Placing but before any conversion of the Convertible Notes		Upon completion of 1228 Placing and Share Placing and full conversion of the Convertible Notes at the Initial Conversion Price		Upon completion of 1228 Placing and Share Placing and full conversion of the Convertible Notes at the Minimum Closing Price	
	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%	Shares	%
Lunghin Enterprise Inc. <sup>1</sup>	28,558,196	22.2	28,558,196	17.6	28,558,196	15.2	28,558,196	8.5	28,558,196	5.0	28,558,196	4.3
Chelson Limited <sup>2</sup>	-	-	6,418,331	4.0	6,418,331	3.4	6,418,331	1.9	6,418,331	1.1	6,418,331	0.9
Public	100,294,460	77.8	127,209,460	78.4	127,209,460	68.0	127,209,460	37.7	127,209,460	22.1	127,209,460	19.0
Placees	-	-	-	-	25,000,000	13.4	25,000,000	7.4	25,000,000	4.3	25,000,000	3.7
Placing Share Subscribers	-	-	-	-	-	-	150,000,000	44.5	150,000,000	26.1	150,000,000	22.4
Convertible Note Subscribers	-	-	-	-	-	-	-	-	238,095,238	41.4	333,333,333	49.7
	<u>128,852,656</u>	<u>100.0</u>	<u>162,185,987</u>	<u>100.0</u>	<u>187,185,987</u>	<u>100.0</u>	<u>337,185,987</u>	<u>100.0</u>	<u>575,281,225</u>	<u>100.0</u>	<u>670,519,320</u>	<u>100.0</u>

*Note 1:* Lunghin Enterprise Inc. is a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, who is an executive director of the Company.

*Note 2:* Chelson Limited is wholly-owned by Pyrope Assets Limited which in turn is a wholly-owned subsidiary of CK Life Science Int'l (Holdings) Inc., the shares of which are listed on the Stock Exchange.

*Note 3:* Save for the outstanding share options which have already been granted under the Share Option Schemes, the Company does not have any other securities which are convertible into Shares as at the Latest Practicable Date.

The Company and the Directors will take appropriate steps to ensure that there will be sufficient public float for the Shares immediately following conversion of the Convertible Notes at any time during the term of the Convertible Notes.

### REASONS FOR THE SHARE PLACING AND CONVERTIBLE NOTE PLACING AND USE OF PROCEEDS

The Company is an investment holding company and the subsidiaries of which are principally engaged in (i) property development and investment; (ii) trading of motor cycles and spare parts; and (iii) the sale and manufacture of "Tung Fong Hung" branded Chinese pharmaceutical and health products, as well as the production and distribution of western pharmaceutical products.

The local economic environment has been improving and the property market in Hong Kong has significantly recovered during the year. According to the monthly figures released by the Land Registry, the number of agreements for sale and purchase of building units (including both residential and non-residential buildings) for the eleven months up to November 2004 was 112,960, which was 43.8% higher than the figure in the same period last year. Generally, there is an optimistic expectation on the property market in Hong Kong, in particular, there will be solid demand for premium office space and residential units over the medium to long term. As at 31st March, 2004, the Group has

## LETTER FROM THE BOARD

investment properties amounting to approximately HK\$8.2 million which are situated in Hong Kong and held under medium term leases. As stated in the Company's annual report for the year ended 31st March, 2004, the Board was of the view that the property market is recovering which will bring better return to the Group and the Group is open for other investment opportunities. In view of this valuable opportunity and after taking into account that the Group possesses extensive experience in property business, the Board decides to further expand the Group's investment properties portfolio in high quality residential and commercial buildings and the Board considers the Share Placing and Convertible Note Placing as effective ways of raising necessary funds for such an expansion plan. The Board is now exploring suitable investment opportunities in Hong Kong and other areas that the Board may think fit. As at the Latest Practicable Date, the Board has not formulated any specific plan and has not identified any particular property to invest in.

The Directors consider that the recent improvement in the market sentiments provides a good opportunity for the Company to raise funds while broadening the shareholder base and the capital base of the Company. Therefore, on 28th December, 2004, the Company entered into the 1228 Placing Agreement with the Placing Agent pursuant to which the Placing Agent will place 25,000,000 new Shares at a price of HK\$0.81 per Share to independent third parties not connected with the Company on a best effort basis. After considering that (i) each of the Share Placing and Convertible Note Placing is subject to, inter alia, the approval from the Shareholders for the issue and allotment of the new Shares under the Share Placing and the new Shares to be converted under the Convertible Note Placing at the SGM; and (ii) new Shares under the 1228 Placing will be issued pursuant to the general mandate granted by the Shareholders to the Directors at the annual general meeting of the Company held on 31st August, 2004, the Directors consider it is favorable for the Company and the Shareholders as a whole to conduct the 1228 Placing, notwithstanding that the 1228 Placing is conducted within a short period of time after the entering into of the Share Placing Agreement and the Convertible Note Placing Agreement.

Assuming all the Placing Shares and Convertible Notes are successfully placed by the Placing Agent, the total gross proceeds from the Share Placing and Convertible Note Placing amount to HK\$160 million. After deducting related expenses of approximately HK\$5 million, approximately HK\$155 million will be available for the Group. It is intended that approximately HK\$35 million of the net proceeds will be used for the repayment of certain short-term borrowings, approximately HK\$90 million will be reserved for the expansion of the Group's investment properties portfolio when opportunities arise and the remaining balance of approximately HK\$30 million will be used for the additional general working capital of the Company.

### **ADJUSTMENTS OF THE SUBSCRIPTION PRICE OF THE SHARE OPTIONS**

According to the rules of the Share Option Schemes, as a result of the Share Placing and the Convertible Note Placing, adjustments may need to be made to the subscription price of the Share Options ("Subscription Price"). Upon the Share Placing Completion and Convertible Note Placing Completion, the Company will notify the holder(s) of the Share Options in relation to any adjustment to the Subscription Price. As at the Latest Practicable Date, the number of Shares to be issued under the Share Options granted as at the Latest Practicable Date was 27,300.



## LETTER FROM THE BOARD

### SGM

Set out on pages 17 and 18 of this circular is a notice convening the SGM which will be held at 10:30 a.m. on 24th January, 2005 at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong, at which ordinary resolutions will be proposed to approve (i) the Share Placing and the issue and allotment of the Placing Shares under the Share Placing; and (ii) the Convertible Note Placing and the creation and issue of the Convertible Notes under the Convertible Note Placing and the issue and allotment of the Conversion Shares.

Whether or not you are able to attend the SGM in person and vote at such meeting, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible 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 but in any event not less than 48 hours before the time appointed for the holding of the SGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjourned meeting if you so wish.

### PROCEDURE TO DEMAND A POLL

The bye-laws of the Company provide that a resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

- (a) by the chairman of such meeting; or
- (b) by at least three members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or
- (d) by a member or members present in person or, in the case of a member being a corporation, by its duly authorized representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A demand by a person as proxy for a member shall be deemed to be the same as a demand by the member.

## LETTER FROM THE BOARD

### GENERAL

The following sets out the capital raising activity of the Company for the 12 months immediately before the Latest Practicable Date:

Date	Event <sup>1</sup>	Conversion Price <sup>1</sup> (HK\$)	Net proceeds <sup>1</sup> (HK\$'million)	Intended and actual use of net proceeds
6th May, 2004	Issue of Pacific Wins Convertible Notes <sup>2</sup>	0.45	15	The entire proceeds were used as part of the consideration for the acquisition of 50% interest in Pacific Wins Development Ltd, the principal business of which is the production, sales and distribution of western pharmaceutical products

Notes:

1. Information as extracted from the announcement of the Company dated 24th March, 2004.
2. All of the Pacific Wins Convertible Notes have been fully converted as at the Latest Practicable Date.

In addition, the Company announced on 28th December, 2004 that it had entered into the 1228 Placing Agreement with the Placing Agent pursuant to which the Placing Agent will place 25,000,000 new Shares to independent third parties not connected with the Company on a best effort basis. The 1228 Placing is subject to certain conditions and is not yet completed as at the Latest Practicable Date. The maximum total gross proceeds from the 1228 Placing amount to HK\$20.25 million. After deducting related expenses of approximately HK\$1 million, approximately HK\$19.25 million will be available for the Group. It is the intention of the Company to use the net proceeds from the 1228 Placing for additional general working capital of the Company.

The maximum total gross proceeds and total net proceeds from the Share Placing, Convertible Note Placing and 1228 Placing amount to HK\$180.25 million and approximately HK\$174.25 million respectively.

### RECOMMENDATIONS

The Directors consider that the terms of both the Share Placing Agreement and Convertible Note Placing Agreement, including the issue price per Placing Share, Initial Conversion Price and Minimum Closing Price adjustment mechanism, are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend all the Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

Yours faithfully,  
By Order of the Board  
**Cheung Tai Hong Holdings Limited**  
**Cheung Yuk Ming**  
Company Secretary

## NOTICE OF SGM



祥泰行集團有限公司\*

CHEUNG TAI HONG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 199)**

**NOTICE IS HEREBY GIVEN** that a Special General Meeting of Cheung Tai Hong Holdings Limited (“Company”) will be held at 10:30 a.m. on 24th January, 2005 at G/F., GMP Centre, 12 Dai Fu Street, Tai Po Industrial Estate, Tai Po, New Territories, Hong Kong, for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. **“THAT** the share placing agreement dated 15th December, 2004 (**“Share Placing Agreement”**, a copy of which has been produced to this meeting marked “A” and initialed by the chairman of this meeting for the purpose of identification) made between the Company and Tai Fook Securities Company Limited (**“Placing Agent”**) in relation to the appointment by the Company of the Placing Agent as placing agent to procure places for an aggregate of 150,000,000 new ordinary shares (**“Placing Shares”**) of par value HK\$0.01 each in the capital of the Company (**“Shares”**) at the issue price of HK\$0.40 per Placing Share on a best effort basis, all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith including (without limitation) the allotment and issue by the Company of the Placing Shares to the places procured by the Placing Agent be and are hereby generally and unconditionally approved in all respects and that the Placing Shares shall, when allotted, issued and fully paid, rank pari passu in all respects with all other Shares in issue at the date of such allotment and issue and further that the Directors be and they are hereby generally and unconditionally authorized to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Share Placing Agreement and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interest of the Company.”
2. **“THAT** the convertible note placing agreement dated 15th December, 2004 (**“Convertible Note Agreement”**, a copy of which has been produced to this meeting marked “B” and initialed by the chairman of this meeting for the purpose of identification) made between the Company and the Placing Agent in relation to the appointment by the Company of the Placing Agent as placing agent to procure places for an aggregate of HK\$100,000,000 2% 3-year convertible notes (**“Convertible Notes”**), the form of which is annexed to the Convertible Note Placing Agreement, on a best effort basis, all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith including (without limitation) the creation and issue by the Company of the Convertible Notes to the places procured by the

\* For identification purpose only

## NOTICE OF SGM

Placing Agent and the issue and allotment of the new Shares (“**Conversion Shares**”) upon the exercise of the conversion rights attaching to the Convertible Notes be and are hereby generally and unconditionally approved in all respects and that the Conversion Shares shall, when allotted and issued, rank *pari passu* in all respects with all other Shares in issue at the date of the conversion notice and further that the Directors be and they are hereby generally and unconditionally authorized to do all such further acts and things and to sign and execute all such other or further documents and to take all such steps which in the opinion of the Directors may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of, or the transactions contemplated by, the Convertible Note Placing Agreement and the Convertible Notes and to agree to such variation, amendments or waiver of matters relating thereto as are, in the opinion of the Directors, in the interest of the Company.”

Yours faithfully,  
By Order of the Board  
**Cheung Tai Hong Holdings Limited**  
**Cheung Yuk Ming**  
*Company Secretary*

6th January, 2005, Hong Kong

*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 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) 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.