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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)**

**SUBSCRIPTION AND PLACING  
OF CONVERTIBLE NOTES  
AND  
CONNECTED TRANSACTION**

**Independent Financial Adviser to the Independent Board Committee and  
the Independent Shareholders**



A notice convening a special general meeting of Cheung Tai Hong Holdings Limited to be held at 10:30 a.m. on 7 June 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 46 to 49 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:*

|                                   |   |
|-----------------------------------|---|
| “2005 February Convertible Notes” | the 2% convertible notes due 2008 issued by the Company on 23 February 2005, the outstanding amount of which is approximately HK\$70 million as at the Latest Practicable Date  |
| “Announcement”                    | the announcement issued by the Company dated 20 April 2005 in relation to, among other things, the Subscription and the Placing   |
| “Associate(s)”                    | 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 main board of the Stock Exchange  |
| “Conversion Shares”               | new Shares which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Subscription Convertible Notes and Placing Convertible Notes, at the then effective conversion price |
| “Director(s)”                     | director(s) of the Company  |
| “Fund Subscribers”                | Subscribers who are funds managed by global asset management firms  |
| “Group”                           | the Company and its subsidiaries  |
| “Hanny”                           | Hanny Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the main board of the Stock Exchange   |
| “Hanny Announcement”              | the announcement issued by Hanny dated 20 April 2005 in relation to the subscription of portion of the Subscription Convertible Notes by Loyal Concept  |
| “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   |

## DEFINITIONS

|                                  |  |
|----------------------------------|--|
| “Independent Board Committee”    | an independent committee of the Board established by the Board to advise the independent Shareholders in respect of the Subscription and the Placing   |
| “Initial Conversion Price”       | the initial conversion price of HK\$0.44 per Share (subject to adjustments)  |
| “Kopola”                         | Kopola Investment Company Limited, a company incorporated in British Virgin Islands with limited liability   |
| “Latest Practicable Date”        | 19 May 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  |
| “Loyal Concept”                  | Loyal Concept Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of Hanny  |
| “Mr. Ho”                         | Mr. Ho Hau Chong, Norman, the deputy chairman and an independent non-executive Director  |
| “Oriental Patron”                | Oriental Patron Asia Limited, a licensed corporation under the SFO to carry out types 1, 6 and 9 regulated activities  |
| “Pacific Wins Convertible Notes” | the HK\$15 million 2% convertible notes due 2006 issued by the Company on 6 May 2004, which have been fully converted into Shares as at the Latest Practicable Date  |
| “Placee(s)”                      | any individual, institutional or other professional investor(s) procured by the Placing Agent to subscribe for the Placing Convertible Notes pursuant to the Placing Agent’s obligations under the Placing Agreement |
| “Placing”                        | the placing of the Placing Convertible Notes by the Placing Agent pursuant to the Placing Agreement  |
| “Placing Agent”                  | Tai Fook Securities Company Limited, a licensed corporation under the SFO to carry on types 1, 3 and 4 regulated activities  |

## DEFINITIONS

|                                  |   |
|----------------------------------|---|
| “Placing Agreement”              | the conditional convertible note placing agreement dated 20 April 2005 entered into between the Company and the Placing Agent in relation to the Placing, subject to the terms and conditions contained therein   |
| “Placing Convertible Notes”      | the HK\$44 million zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the Placing Agreement  |
| “SFC”                            | Securities and Futures Commission of Hong Kong  |
| “SFO”                            | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| “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 Subscription and the 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 Options”                  | share options granted under the Share Option Schemes  |
| “Share Option Schemes”           | the share option schemes adopted and approved by the Company on 28 February 1994 (as subsequently terminated on 26 August 2002) and 26 August 2002 respectively   |
| “Stock Exchange”                 | The Stock Exchange of Hong Kong Limited   |
| “Subscriber(s)”                  | Fund Subscribers, Loyal Concept and Kopola  |
| “Subscription”                   | the subscription for the Subscription Convertible Notes by the Subscriber(s) pursuant to the Subscription Agreement(s)  |
| “Subscription Agreements”        | seven conditional subscription agreements dated 8 April 2005 entered into between the Company and each of the Fund Subscribers and two conditional subscription agreements dated 20 April 2005 entered into between the Company and each of Loyal Concept and Kopola, all relating to the Subscription, subject to the terms and conditions contained therein |
| “Subscription Convertible Notes” | the HK\$956 million zero coupon convertible notes due 2010 proposed to be issued by the Company pursuant to the Subscription Agreements   |
| “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:*

Cheung Hon Kit (*Chairman*)

Chan Fut Yan

Tse Cho Tseung

Cheung Sze Man

*Registered office:*

Clarendon House

Church Street

Hamilton HM 11

Bermuda

*Non-executive Director:*

Lo Lin Shing, Simon

*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

*Independent non-executive Directors:*

Ho Hau Chong, Norman (*Deputy Chairman*)

Wong Chi Keung, Alvin

Kwok Ka Lap, Alva

Zhang Shichen

23 May 2005

*To the Shareholders and for information only,*

*to the holders of the 2005 February*

*Convertible Notes and Share Options*

Dear Sir or Madam,

### **SUBSCRIPTION AND PLACING OF CONVERTIBLE NOTES AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

On 20 April 2005, the Company announced that it entered into nine Subscription Agreements with each of the Subscribers and the Placing Agreement with the Placing Agent respectively. Seven of the Subscription Agreements with each of the Fund Subscribers were entered into on 8 April 2005 and two of the Subscription Agreements with each of Loyal Concept and Kopola and the Placing Agreement were entered into on 20 April 2005. Each of the Subscription Agreements and the Placing Agreement are not inter-conditional on each other.

Pursuant to the Subscription Agreements, the Fund Subscribers in aggregate, Loyal Concept and Kopola have conditionally agreed to subscribe by cash for the Subscription Convertible Notes with principal amounts of HK\$356 million, HK\$450 million and HK\$150

\* For identification purpose only

## LETTER FROM THE BOARD

million respectively. Each of the Fund Subscribers and their respective investment managers is 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. Four of the Fund Subscribers (with total subscription amount of HK\$195 million) are related to each other to the extent that they have been established and are managed by a common investment manager which is licensed by the SFC. Loyal Concept is an indirect wholly-owned subsidiary of Hanny whose shares are listed on the main board of the Stock Exchange. Notwithstanding the fact that the Chairman and executive Director, Mr. Cheung Hon Kit, is also a non-executive director of Hanny, and an independent non-executive Director, Mr. Kwok Ka Lap, Alva, is also an independent non-executive director of Hanny, each of Loyal Concept and Hanny is 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. Kopola is 50% held by Mr. Ho, the deputy chairman and an independent non-executive Director, and therefore an Associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules, Kopola is regarded as a connected person of the Company under Rule 14A.11 of the Listing Rules.

Pursuant to the Placing Agreement, the Placing Agent will procure, on a best effort basis, no less than six Placees to subscribe by cash for Placing Convertible Notes with an aggregate principal amount of HK\$44 million. All the Placees and their respective ultimate beneficial owners will be independent of, not connected and not acting in concert with the Company, each of the Subscribers and their respective connected persons (as defined under the Listing Rules) and concert parties, and are not connected persons of the Company. None of the Placees will be a Subscriber.

The subscription of Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules. Accordingly, the Subscription by Kopola is subject to the approval of the independent Shareholders on which voting shall be taken by poll. Kopola and its Associates have no shareholding interests in the Company as at the Latest Practicable Date. The directors and chief executive of the Company and their respective Associates and party acting in concert with any of them will abstain from voting at the SGM on the resolutions to approve the creation and issue of the Subscription Convertible Notes and the Placing Convertible Notes and the issue and allotment of new Shares resulting from the exercise of the conversion rights attached to the relevant Subscription Convertible Notes and Placing Convertible Notes, on which voting shall be taken by poll.

The purpose of this circular is to provide you with further information on the Subscription Agreements and the Placing Agreement and to give you notice of the SGM at which resolutions approving the Subscription and the Placing will be sought. The Independent Board Committee, comprising Mr. Wong Chi Keung, Alvin and Mr. Zhang Shichen, has been formed to advise the independent Shareholders on the terms of the Subscription Agreements and the Placing Agreement. Oriental Patron has been appointed as the independent financial adviser to the Independent Board Committee and the independent Shareholders. A letter from the Independent Board Committee is set out on page 22 of this circular and a letter from Oriental Patron is set out on pages 23 to 40 of this circular.

## LETTER FROM THE BOARD

### SUBSCRIPTION AGREEMENTS

#### Dates of the Subscription Agreements

Seven of the Subscription Agreements with each of the Fund Subscribers were entered into on 8 April 2005 and the remaining two of the Subscription Agreements with each of Loyal Concept and Kopola were entered into on 20 April 2005.

#### Parties to the Subscription Agreements

- (i) The Company as the issuer; and
- (ii) Seven Fund Subscribers, Loyal Concept and Kopola as the Subscribers to subscribe by cash for the Subscription Convertible Notes with principal amounts of HK\$356 million, HK\$450 million, and HK\$150 million respectively.

#### Subscribers

Each of the Fund Subscribers and their respective investment managers is 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. Four of the Fund Subscribers (with total subscription amount of HK\$195 million) are related to each other to the extent that they have been established and are managed by a common investment manager which is licensed by the SFC.

Loyal Concept is an investment holding company and is an indirect wholly-owned subsidiary of Hanny whose shares are listed on the main board of the Stock Exchange. Hanny and its subsidiaries are principally engaged in the trading of computer related products, consumer electronic products which comprise the manufacturing, distribution and marketing of data storage media (primarily floppy disks, CD-R, CD-RW and DVD), the distribution and marketing of computer accessories and storage media drives, scanners, audio and video cassettes, minidiscs, household electronic products and telecommunication accessories and securities trading. Hanny and its subsidiaries also made strategic investments in information technology, supply of household consumer products and other businesses. Notwithstanding the fact that the Chairman and executive Director, Mr. Cheung Hon Kit, is also a non-executive director of Hanny, and an independent non-executive Director, Mr. Kwok Ka Lap, Alva, is also an independent non-executive director of Hanny, each of Loyal Concept and Hanny is 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. The subscription of Subscription Convertible Notes by Loyal Concept constitutes a major transaction and a possible very substantial acquisition for Hanny under the Listing Rules, for details please refer to the Hanny Announcement. As stated in the Hanny Announcement, each of Loyal Concept and Hanny and their respective subsidiaries has no intention to inject any assets or businesses into the Group after the completion of the subscription of the Subscription Convertible Notes by Loyal Concept and after the exercise of the conversion rights attached to the Subscription Convertible Notes subscribed by Loyal Concept.



## LETTER FROM THE BOARD

Kopola is an investment and property holding company. Kopola is 50% held by Mr. Ho with the remaining 50% held by his elder brother. Mr. Ho is the deputy chairman and an independent non-executive Director. Mr. Ho is a director of Miramar Hotel and Investment Company, Limited and a non-executive director of New World Mobile Holdings Limited, Tai Fook Securities Group Limited (“TFSG”). He is also an independent non-executive director of CITIC Pacific Limited, Hong Kong Ferry (Holdings) Company Limited, Lee Hing Development Limited, Shun Tak Holdings Limited and Starlight International Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange. Upon completion of the subscription by Kopola, Mr. Ho will cease to be an independent non-executive Director but will remain as a non-executive Director.

### Conditions of the Subscription

Completion of the Subscription under each of the Subscription Agreements is conditional upon:-

- (i) none of the representations, warranties and undertakings given by the Company pursuant to the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect;
- (ii) none of the representations, warranties and undertakings given by the Subscriber pursuant to the Subscription Agreement having been breached in any material respect (or, if capable of being remedied, has not been remedied), or is misleading or untrue in any material respect;
- (iii) (other than the Subscription Agreement for Kopola) the passing of the ordinary resolutions by the Shareholders at the SGM approving the creation and issue of the Subscription Convertible Notes to the Subscriber and the issue and allotment of the new Shares to the Subscriber resulting from the exercise of the conversion rights attached to the relevant Subscription Convertible Notes;
- (iv) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Subscription Convertible Notes;
- (v) the compliance of any other requirements under the Listing Rules and the Takeovers Code or otherwise of the Stock Exchange and the SFC which requires compliance in relation to the creation and issue of the Subscription Convertible Notes and the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Subscription Convertible Notes;
- (vi) (where required) the Bermuda Monetary Authority granting its permission to the creation and issue of the Subscription Convertible Notes and the issue and allotment of the new Shares resulting from the exercise of the conversion rights attached to the Subscription Convertible Notes;

## LETTER FROM THE BOARD

- (vii) the obtaining of all consents from any relevant persons which are necessary or desirable in connection with the creation and issue of the Subscription Convertible Notes (and, where such consents are given subject to conditions, such conditions are on terms as may be reasonably acceptable to the Company);
- (viii) the Company having produced to the Subscriber a legal opinion issued by a firm of Bermudan lawyers that the Company is duly incorporated and in good standing and that it has full power to enter into the Subscription Agreement and the Subscription Agreement is and (when executed and subject to fulfillment of the conditions of the Subscription) the Subscription Convertible Notes will be legal, valid and binding on it and enforceable in accordance with the respective terms thereof; and
- (ix) the Company having confirmed that the aggregate principal sum of the Subscription Convertible Notes and Placing Convertible Notes shall not be less than HK\$1,000 million and that such amount, after deducting all related expenses, shall be payable to, and for the account of, the Company.

In addition to the above conditions, completion of the subscription of Subscription Convertible Notes by Loyal Concept is also conditional upon the passing of the necessary resolution(s) by shareholders of Hanny at a general meeting approving, inter alia, the subscription of Subscription Convertible Notes by Loyal Concept and the transactions contemplated under the Subscription Agreement in relation thereto; and completion of the subscription of Subscription Convertible Notes by Kopola is also conditional upon the passing of the ordinary resolution(s) by the independent Shareholders at the SGM approving the creation and issue of the Subscription Convertible Notes to Kopola and the issue and allotment of the new Shares to Kopola resulting from the exercise of the conversion rights attached to the Subscription Convertible Notes.

Except for conditions (i), (viii) and (ix) which are waivable by the relevant Subscribers and condition (ii) which is waivable by the Company respectively, none of the conditions are waivable. As at the Latest Practicable Date, except for condition (vi) which has been fulfilled, none of the above conditions have been fulfilled or waived. If any of the conditions has not been fulfilled or (as the case may be) waived by 5:00 p.m. on 31 July 2005 (or such other date as the Company and the relevant Subscriber may agree in writing), the relevant Subscription Agreement shall terminate and the respective obligations of the parties thereto under the relevant Subscription Agreement shall forthwith cease and terminate.

### **Completion**

Completion of the Subscription under each Subscription Agreement is to take place on the third business day after the date upon which the conditions stated in the section headed "Conditions of the Subscription" above are fulfilled or, as the case may be, waived, or such other date as the Company and the relevant Subscriber may agree. The Company will make a further announcement as soon as practicable after the completion of the Subscription.

## LETTER FROM THE BOARD

### PLACING AGREEMENT

#### Date of the Placing Agreement

20 April 2005

#### Parties to the Placing Agreement

- (i) The Company as the issuer; and
- (ii) The Placing Agent

#### Placing Agent

Mr. Lo Lin Shing, Simon, the non-executive Director, is the deputy chairman and beneficially interested in approximately 13% of the issued share capital of TFSGL, the holding company of the Placing Agent and the shares of which are listed on the Stock Exchange. Mr. Ho, the deputy chairman and independent non-executive Director, is a non-executive director of TFSGL. 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 is not a connected person of the Company. The Placing Agent will receive a placing commission of 2.5% on the gross proceeds from the Placing, the commission of which will be payable by the Company upon completion of the Placing.

#### Placees

Pursuant to the Placing Agreement, the Placing Agent will procure, on a best effort basis, no less than six Placees to subscribe by cash for the Placing Convertible Notes with an aggregate principal amount of HK\$44 million. The Company will make a further announcement in relation to the size of the Placing and the independence of the Placees as soon as practicable once the Placees under the Placing Agreement have been identified.

All the Placees and their respective ultimate beneficial owners will be independent of, not connected and not acting in concert with the Company, each of the Subscribers and their respective connected persons (as defined under the Listing Rules) and concert parties, and are not connected persons of the Company. None of the Placees will be a Subscriber.

#### Conditions of the Placing

Completion of the Placing is conditional upon:-

- (i) the passing of the ordinary resolutions by the Shareholders at the SGM approving the Placing and the creation and issue of the Placing Convertible Notes under the Placing and the issue and allotment of the new Shares resulting from the exercise of the conversion rights attached to the Placing Convertible Notes;

## LETTER FROM THE BOARD

- (ii) the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Placing Convertible Notes;
- (iii) the compliance of any other requirements under the Listing Rules and the Takeovers Code or otherwise of the Stock Exchange and the SFC which requires compliance in relation to the Placing, the issue of the Placing Convertible Notes and the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Placing Convertible Notes;
- (iv) (where required) the Bermuda Monetary Authority granting its permission to the issue of the Placing Convertible Notes and the issue and allotment of the new Shares resulting from the exercise of the conversion rights attached to the Placing Convertible Notes; and
- (v) the obtaining of all consents from any relevant persons which are necessary or desirable in connection with the creation and issue of the Placing 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).

As at the Latest Practicable Date, except for condition (iv), none of the above conditions have been fulfilled. If any of the conditions has not been fulfilled by 31 July 2005 (or such other date as the Company and the Placing Agent may agree in writing), the Placing Agreement shall lapse and be terminated and all rights, obligations and liabilities of all parties thereunder in relation to the Placing shall cease and determine and no party shall have any claim against the other under the Placing Agreement except for antecedent breach.

### **Completion**

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

### **SUBSCRIPTION CONVERTIBLE NOTES AND PLACING CONVERTIBLE NOTES**

The terms of the Subscription Convertible Notes and the Placing Convertible Notes (collectively called "Convertible Notes") are identical, which are summarized as follows:

#### **Principal terms**

- Aggregate principal amount:
- Subscription Convertible Notes: HK\$956 million
  - Placing Convertible Notes: Initially, HK\$44 million

## LETTER FROM THE BOARD

- Initial Conversion Price: HK\$0.44 per Share, subject to adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and rights issue. If at any time after the first anniversary of the issue date of the Convertible Notes the average closing price per Share for 20 consecutive trading days is higher than HK\$0.85 (subject to adjustments in the events of share consolidation and share subdivision), all the then outstanding Convertible Notes will be deemed to be converted at the then prevailing conversion price
- Interest rate: 0% per annum
- Maturity: The fifth anniversary from the date of issue of the Convertible Notes (“Maturity Date”)
- Redemption: Unless previously converted and cancelled, the Company will redeem each Convertible Note on the Maturity Date at the redemption amount which is 110% of the principal amount of the Convertible Note outstanding. Before the Maturity Date, the Company or any of its subsidiary may purchase the Convertible Notes at any price as agreed between the Company or such subsidiary and the holders of the Convertible Notes
- Transferability: The Convertible Notes are freely transferable but may not be transferred to a connected person (as defined under the Listing Rules) 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 15th day after the date of issue of the Convertible Notes up to and including the date which is 15 days prior to the Maturity Date, the whole or any part (in an amount or integral multiple of HK\$500,000) 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

## LETTER FROM THE BOARD

**Listing:** No application will be made for the listing of the Convertible Notes on the Stock Exchange or any other stock exchange. An application will be made by the Company for the listing of, and permission to deal in, the Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Notes

**Ranking:**

- The Convertible Notes will rank pari passu with all other present and future unsecured and unsubordinated obligations of the Company
- The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Convertible Notes will rank pari passu in all respects with all other existing Shares outstanding at the date of conversion of the Convertible Notes

Based on the terms of the Convertible Notes, the expected yield to maturity of the Convertible Notes is approximately 1.9% per annum.

### **Conversion Shares**

Upon full conversion of the Subscription Convertible Notes at the Initial Conversion Price, a total of 2,172,727,272 new Conversion Shares will be issued, representing approximately 531.7% of the issued share capital of the Company as at the Latest Practicable Date and approximately 84.2% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Initial Conversion Price.

Assuming all the HK\$44 million Placing Convertible Notes are successfully placed by the Placing Agent, upon full conversion of the Placing Convertible Notes at the Initial Conversion Price, a total of 100,000,000 new Conversion Shares will be issued, representing approximately 24.5% of the issued share capital of the Company as at the Latest Practicable Date and approximately 19.7% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Initial Conversion Price; and upon full conversion of the Subscription Convertible Notes and Placing Convertible Notes at the Initial Conversion Price, a total of 2,272,727,272 new Conversion Shares will be issued, representing approximately 556.2% of the issued share capital of the Company as at the Latest Practicable Date and approximately 84.7% of the issued share capital of the Company as enlarged by the issue of such Conversion Shares at the Initial Conversion Price.

As stated in the Hanny Announcement, no decision has been made by Loyal Concept on whether or when or the extent to which the conversion rights attached to the Subscription Convertible Notes subscribed by Loyal Concept are to be exercised. To the best knowledge of the Company, the Company has not received any indication from any of the Subscribers as to whether or when or the extent to which they would exercise the conversion rights attached to the Subscription Convertible Notes. In the event conversion of the Subscription Convertible Notes and Placing Convertible Notes has taken place, the

## LETTER FROM THE BOARD

Company will make appropriate announcements from time to time in the manner as described in the paragraph headed "Dilution effect on Shareholders" below.

### Conversion price

The initial conversion price of HK\$0.44 per Share was arrived at after arm's length negotiation between the Subscribers, the Placing Agent and the Company and represents:

- a premium of approximately 8.6% over the closing price of HK\$0.405 per Share as quoted on the Stock Exchange on 24 March 2005, being the last trading day for the Shares immediately before trading in the Shares was suspended pending the release of the Announcement;
- a premium of approximately 3.8% over the average closing price of HK\$0.424 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including 24 March 2005;
- a premium of approximately 3.5% over the closing price of HK\$0.425 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- a premium of approximately 2.6% over the average closing price of HK\$0.429 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Latest Practicable Date; and
- a premium of approximately 22.2% over the unaudited consolidated net asset value per Share of approximately HK\$0.36 based on the unaudited consolidated net asset value of the Company as at 30 September 2004 of approximately HK\$130 million and the issued share capital of the Company as at the date of the Announcement.

Based on the above analysis, the Directors consider the terms of the Convertible Notes, including the Initial Conversion Price, are fair and reasonable and in the interests of the Shareholders as a whole.

### SHAREHOLDING STRUCTURE

Set out below is a table showing the Company's shareholding structure (i) as at the date of the Announcement; (ii) as at the Latest Practicable Date; (iii) upon completion of the Subscription and full conversion of the Subscription Convertible Notes at the Initial Conversion Price; (iv) upon completion of the Placing and full conversion of the Placing Convertible Notes at the Initial Conversion Price; (v) upon completion of the Subscription and the Placing and full conversion of the Subscription Convertible Notes and Placing Convertible Notes at the Initial Conversion Price; and (vi) upon completion of the Subscription and the Placing and full conversion of the Subscription Convertible Notes and Placing Convertible Notes at the Initial Conversion Price and 2005 February Convertible

## LETTER FROM THE BOARD

Notes at HK\$0.42 per Share, assuming that (a) all the Placing Convertible Notes in an aggregate principal amount of HK\$44 million are successfully placed by the Placing Agent; and (b) there will be no change to the issued share capital of the Company as at the Latest Practicable Date save as mentioned above:

|                                     | As at the date of the Announcement |              | As at the Latest Practicable Date |              | Upon completion of the Subscription and full conversion of the Subscription Convertible Notes at the Initial Conversion Price |              | Upon completion of the Placing and full conversion of the Placing Convertible Notes at the Initial Conversion Price |              | Upon completion of the Subscription and the Placing and full conversion of the Subscription and Placing Convertible Notes at the Initial Conversion Price |              | Upon completion of the Subscription and the Placing and full conversion of the Subscription and Placing Convertible Notes at the Initial Conversion Price and 2005 February Convertible Notes at HK\$0.42 per Share |              |
|-------------------------------------|------------------------------------|--------------|-----------------------------------|--------------|---|--------------|---|--------------|---|--------------|---|--------------|
|                                     | number of Shares                   | %            | number of Shares                  | %            | number of Shares  | %            | number of Shares  | %            | number of Shares  | %            | number of Shares  | %            |
| Lunghin Enterprise Inc.<br>(Note 1) | 28,558,196                         | 7.9          | 28,558,196                        | 7.0          | 28,558,196  | 1.1          | 28,558,196  | 5.6          | 28,558,196  | 1.1          | 28,558,196  | 1.0          |
| Subscribers                         |                                    |              |                                   |              |   |              |   |              |   |              |   |              |
| Four Fund Subscribers<br>(Note 3)   | -                                  | -            | -                                 | -            | 443,181,818   | 17.2         | -   | -            | 443,181,818   | 16.5         | 443,181,818   | 15.6         |
| Other Fund Subscribers              | -                                  | -            | -                                 | -            | 365,909,092   | 14.2         | -   | -            | 365,909,092   | 13.6         | 365,909,092   | 12.8         |
| Loyal Concept                       | -                                  | -            | -                                 | -            | 1,022,727,272   | 39.6         | -   | -            | 1,022,727,272   | 38.1         | 1,022,727,272   | 35.9         |
| Kopola                              | -                                  | -            | -                                 | -            | 340,909,090   | 13.2         | -   | -            | 340,909,090   | 12.8         | 340,909,090   | 12.0         |
| Subtotal                            | -                                  | -            | -                                 | -            | 2,172,727,272   | 84.2         | -   | -            | 2,172,727,272   | 81.0         | 2,172,727,272   | 76.3         |
| Placees                             | -                                  | -            | -                                 | -            | -   | -            | 100,000,000   | 19.7         | 100,000,000   | 3.7          | 100,000,000   | 3.5          |
| Public                              | 332,437,311                        | 92.1         | 380,056,357                       | 93.0         | 380,056,357   | 14.7         | 380,056,357   | 74.7         | 380,056,357   | 14.2         | 546,723,023   | 19.2         |
| Total                               | <u>360,995,507</u>                 | <u>100.0</u> | <u>408,614,553</u>                | <u>100.0</u> | <u>2,581,341,825</u>  | <u>100.0</u> | <u>508,614,553</u>  | <u>100.0</u> | <u>2,681,341,825</u>  | <u>100.0</u> | <u>2,848,008,491</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, an executive Director.

*Note 2:* Save for the outstanding 2005 February Convertible Notes and share options which have already been granted under the Share Option Schemes as at the Latest Practicable Date, the Company does not have any other securities which are convertible into Shares.

*Note 3:* Being four of the Fund Subscribers with total subscription amount of HK\$195 million which are established and managed by a common investment manager licensed by the SFC.

*Note 4:* During the period between the date of the Announcement and the Latest Practicable Date, 47,619,046 Shares have been issued by the Company as a result of the exercise of conversion rights attached to part of the outstanding 2005 February Convertible Notes with a principal amount of HK\$20 million.



## LETTER FROM THE BOARD

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, each of Loyal Concept and Hanny and their concert parties are independent of, not connected and not acting in concert with Kopola and Mr. Ho and their concert parties, and vice versa.

In the event that Loyal Concept exercises the conversion rights attaching to the Subscription Convertible Notes to the extent that Loyal Concept becomes a Shareholder interested in 30% or more of the enlarged issued share capital of the Company, Loyal Concept will be obliged to make a mandatory general offer to the Shareholders to acquire all the then issued Shares, other than those already owned or agreed to be acquired by Loyal Concept and parties acting in concert with it in accordance with Rule 26 of the Takeovers Code. As set out in the Hanny Announcement, Loyal Concept will comply with the relevant requirements of the Takeovers Code in the event that an obligation for a mandatory general offer arises.

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.

The Stock Exchange has indicated that should the Subscription and the Placing be completed, it will closely monitor trading in the Shares if less than 25% of the issued Shares are held by the public. If the Stock Exchange believes that a false market exists or may exist in the trading in the Shares, or there are too few Shares in public hands to maintain an orderly market, then it will consider exercising its discretion to suspend trading in the Shares until a sufficient level of public float is attained.

### **DILUTION EFFECT ON SHAREHOLDERS**

As the Company foresees the future dilution effect on the Shareholders resulting from the exercise of the conversion rights attaching to the Convertible Notes, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion of the Convertible Notes in the following manner:

- (a) the Company will make a monthly announcement (the “Monthly Announcement”) on the website of the Stock Exchange. Such announcement will be made on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
  - (i) whether there is any conversion of the Convertible Notes during the relevant month. If yes, details of the conversion(s), including the conversion date, number of new Shares issued, conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
  - (ii) the number of outstanding Convertible Notes after the conversion, if any;

## LETTER FROM THE BOARD

- (iii) the total number of Shares issued pursuant to other transactions, including Shares issued pursuant to exercise of options under any share option scheme(s) of the Company; and
  - (iv) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and
- (b) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the Convertible Notes reaches 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) (and thereafter in a multiple of such 5% threshold), the Company will make an announcement on the website of the Stock Exchange including details as stated in (a) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be) up to the date on which the total amount of Shares issued pursuant to the conversion amounted to 5% of the issued share capital of the Company as disclosed in the last Monthly Announcement or any subsequent announcement made by the Company in respect of the Convertible Notes (as the case may be).

### REASONS FOR THE SUBSCRIPTION AND THE 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.

As stated in the circular of the Company dated 6 January 2005, by leveraging on its extensive experience in the property business, the Group is open for property investment opportunities and has decided to further expand its investment properties portfolio in high quality residential and commercial buildings in Hong Kong and other areas that the Board may think fit. The Group is still focusing on this business development approach and the Board has kept on exploring suitable investment opportunities. The Board has considered various ways of raising funds other than the Subscription and the Placing, such as bank borrowings, rights issue, open offer and share placement. However, the Board considers that such other methods of financing would be less preferable and effective than the Subscription and the Placing in view of the Group has been operating at losses in the past few years, the size of the new capital to be raised, the relatively higher cost and longer time involved in other funding arrangement such as rights issue, open offer and bank borrowings and the immediate dilution of existing shareholders interest as a result of share placement which usually involve an issue of new shares at a discount to the market price of the shares. The Board considers the Subscription and the Placing as the best available fund-raising methods for future possible acquisitions when such opportunities are identified.

## LETTER FROM THE BOARD

The total gross proceeds from the Subscription amount to HK\$956 million. Assuming all the Placing Convertible Notes are successfully placed by the Placing Agent, the total gross proceeds from the Placing amount to HK\$44 million. Therefore, the maximum total gross proceeds from the Subscription and the Placing amount to HK\$1,000 million. After deducting related expenses of approximately HK\$4 million, approximately HK\$996 million will be available for the Group. It is intended that all of the net proceeds will be used for expanding the investment properties portfolio of the Company when opportunities arise. As at the Latest Practicable Date, the Company is still in preliminary discussion with certain independent third parties to explore the possibility of acquiring certain properties located in Hong Kong, the PRC or Macau. However, no contract or agreement has been entered into for any of these possible acquisitions.

### **ADJUSTMENTS OF THE CONVERSION PRICE OF 2005 FEBRUARY CONVERTIBLE NOTES AND SUBSCRIPTION PRICE OF THE SHARE OPTIONS**

According to the terms of 2005 February Convertible Notes and the rules of the Share Option Schemes, as a result of the Subscription and/or the Placing, adjustments may need to be made to the conversion price of the 2005 February Convertible Notes (“2005 February Conversion Price”) and the subscription price of the Share Options (“Subscription Price”). Upon completion of the Subscription and/or the Placing, the Company will notify the holder(s) of the 2005 February Convertible Notes and the Share Options respectively in relation to any adjustment to the 2005 February Conversion Price and the Subscription Price. As at the Latest Practicable Date, the principal amount of the 2005 February Convertible Notes outstanding was HK\$70 million, representing an entitlement of approximately 166,666,666 Shares upon full conversion. 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

### GENERAL

The following sets out the capital raising activities of the Company for the 12 months immediately before the date of the Announcement:

| Date             | Event   | Price<br>(HK\$)               | Net proceeds<br>(HK\$ 'million) | Intended use<br>of net proceeds   | Actual use<br>of net proceeds  |
|------------------|---|-------------------------------|---------------------------------|---|--|
| 6 May 2004       | Issue of Pacific Wins Convertible Notes   | 0.45                          | 15                              | The entire proceeds to be 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  | The entire proceeds were used as part of the consideration for the acquisition of 50% interest in Pacific Wins Development Ltd.  |
| 13 January 2005  | Issue of 25,000,000 new Shares  | 0.81                          | 19                              | Additional general working capital of the Company   | Additional general working capital of the Company  |
| 23 February 2005 | Issue of 150,000,000 new Shares<br><br>Issue of 2005 February Convertible Notes | 0.40<br><br>0.42 <sup>1</sup> | 155                             | HK\$35 million of the net proceeds would be used for the repayment of certain short-term borrowings, approximately HK\$90 million would be reserved for expansion of the Group's investment properties portfolio when opportunities arise and the remaining balance of approximately HK\$30 million would be used for the additional general working capital of the Company | Approximately HK\$4 million of the net proceeds were used as general working capital of the Group, approximately HK\$7 million were used for repayment of certain short-term borrowings while the remaining approximately HK\$144 million is deposited at the bank as at the Latest Practicable Date |

*Notes:*

1. represents the conversion price before any adjustments which may be made in relation to the Subscription and the Placing
2. all the Pacific Wins Convertible Notes have been fully converted as at the Latest Practicable Date

## LETTER FROM THE BOARD

### SGM

Kopola is 50% held by Mr. Ho, the deputy chairman and an independent non-executive Director, and therefore an Associate of Mr. Ho. As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules, Kopola is regarded as a connected person of the Company as well under Rule 14A.11 of the Listing Rules. The subscription of Subscription Convertible Notes by Kopola constitutes a connected transaction of the Company under Rule 14A.13(1)(a) of the Listing Rules. Accordingly, the subscription by Kopola is subject to the approval of the independent Shareholders on which voting shall be taken by poll. Kopola and its Associates have no shareholding interests in the Company as at the Latest Practicable Date. The directors and chief executive of the Company and their respective Associates and party acting in concert with any of them will abstain from voting at the SGM on the resolutions to approve the creation and issue of the Subscription Convertible Notes and the Placing Convertible Notes and the issue and allotment of new Shares resulting from the exercise of the conversion rights attached to the relevant Subscription Convertible Notes and Placing Convertible Notes, on which vote will be taken by poll. Lunghin Enterprise Inc. (whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, an executive Director) and its Associates, which controlled approximately 7.0% of the issued share capital of the Company as at the Latest Practicable Date, will abstain from voting at the SGM in this regard.

Set out on pages 46 to 49 of this circular is a notice convening the SGM which will be held at 10:30 a.m. on 7 June 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 Subscription by each of the Subscribers, the creation and issue of the Subscription Convertible Notes under the Subscription, and the issue and allotment of the new Shares which would fall to be issued upon the exercise of the conversion rights attached to the Subscription Convertible Notes; and (ii) the Placing and the creation and issue of the Placing Convertible Notes under the Placing and the issue and allotment of the new Shares which would fall to be issued upon the exercise of the conversion rights attached to the Placing Convertible Notes.

A form of proxy for use at the SGM is enclosed. 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.

## LETTER FROM THE BOARD

### 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.

### RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 22 of this circular which contains the recommendation from the Independent Board Committee to the independent Shareholders concerning the Subscription and the Placing; and (ii) the letter from Oriental Patron set out on pages 23 to 40 of this circular which contains the recommendation from Oriental Patron to the Independent Board Committee and the independent Shareholders in relation to the Subscription and the Placing and the principal factors considered by Oriental Patron in arriving at its recommendation.

Having taken into account the advice from Oriental Patron and in particular the principal factors set out in the letter from Oriental Patron, the Independent Board Committee considers that the terms of the Subscription Agreements and the Placing Agreement are fair and reasonable and the Subscription and the Placing are in the interest of the Group and the independent Shareholders as a whole. The Independent Board Committee recommends the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Placing and the transactions contemplated thereunder.

## LETTER FROM THE BOARD

### FURTHER INFORMATION

Your attention is drawn to the letter form the Independent Board Committee, the letter from Oriental Patron, the general information set out in the appendix to this circular and the notice convening the SGM.

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



祥泰行集團有限公司\*

CHEUNG TAI HONG HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 199)**

23 May 2005

*To the independent Shareholders*

Dear Sir or Madam,

**SUBSCRIPTION AND PLACING  
OF CONVERTIBLE NOTES  
AND  
CONNECTED TRANSACTION**

We refer to the circular dated 23 May 2005 issued to the Shareholders (the “Circular”), of which this letter forms part. Unless the context otherwise requires, terms used in this letter shall have the same respective meanings as defined in the Circular.

We have been appointed as members of the Independent Board Committee to advise you as to whether, in our opinion, the Subscription and the Placing are in the interests of the Group and the independent Shareholders as a whole. Oriental Patron has been appointed as the independent financial adviser to advise us in connection with the Subscription and the Placing.

Having taken into account the advice of Oriental Patron and, in particular, the principal factors and recommendation set out in the letter from Oriental Patron on pages 23 to 40 of the Circular, we consider that the terms of the Subscription Agreements (including the Subscription Agreement with Kopola) and the Placing Agreement are fair and reasonable in the circumstances and that the Subscription (including the Subscription by Kopola) and the Placing are in the interests of the Group and the independent Shareholders as a whole. We therefore recommend the independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Placing and the transactions contemplated thereunder.

Yours faithfully,

**Mr. Wong Chi Keung, Alvin**

**Mr. Zhang Shichen**

*Independent Board Committee*

\* For identification purpose only



## LETTER FROM ORIENTAL PATRON

*The following is the letter of advice from Oriental Patron to the Independent Board Committee and the independent Shareholders, which has been prepared for the purpose of inclusion in this circular.*



27th Floor, Two Exchange Square  
8 Connaught Place, Central  
Hong Kong

23 May, 2005

*To the Independent Board Committee  
and the Independent Shareholders*

Dear Sirs,

### **SUBSCRIPTION AND PLACING OF CONVERTIBLE NOTES AND CONNECTED TRANSACTION**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to the Independent Board Committee and the independent Shareholders in connection with the Subscription and Placing, details of which are set out in the "Letter from the Board" in the circular (the "Circular") issued by the Company to the Shareholders dated 23 May, 2005 of which this letter forms part. Capitalised terms used in this letter shall have the same meaning ascribed to them in the Circular unless the context otherwise requires.

#### **The Subscription Agreements and the Placing Agreement**

As stated in the Circular, the Company entered into nine conditional Subscription Agreements with each of the Subscribers and the conditional Placing Agreement with the Placing Agent. Seven of the Subscription Agreements with each of the Fund Subscribers were entered into on 8 April 2005 and the remaining two of the Subscription Agreements with Loyal Concept and Kopola respectively and the Placing Agreement were entered into on 20 April 2005. Each of the Subscription Agreements and the Placing Agreement is not inter-conditional on each other.

## LETTER FROM ORIENTAL PATRON

The following table summarises the principal amounts of the Subscription Convertible Notes under the Subscription Agreements and the Placing Convertible Notes under the Placing Agreement:

|                                       | <i>Notes</i> | <b>Principal Amount</b><br><i>HK\$ million</i> |
|---------------------------------------|--------------|--|
| <b>Subscription Convertible Notes</b> |              |  |
| Four Fund Subscribers                 | (1),(2)      | 195  |
| Three Fund Subscribers                | (2)          | 161  |
| Loyal Concept                         | (3)          | 450  |
| Kopola                                | (4)          | 150  |
|                                       |              | 956  |
| <b>Placing Convertible Notes</b>      |              |  |
| Not less than six Placees             | (5)          | 44   |
|                                       | (6)          | 1,000  |

*Notes:*

- (1) Four of the Fund Subscribers are related to each other to the extent that they have been established and are managed by a common investment manager which is licensed by the SFC.
- (2) Each of the Fund Subscribers and their respective investment managers is 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.
- (3) Loyal Concept is an indirect wholly-owned subsidiary of Hanny whose shares are listed on the main board of the Stock Exchange. Notwithstanding the fact that the Chairman and executive Director, Mr. Cheung Hon Kit, is also a non-executive director of Hanny, and an independent non-executive Director, Mr. Kwok Ka Lap, Alva, is also an independent non-executive director of Hanny, each of Loyal Concept and Hanny is 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.
- (4) Kopola is equally held by Mr. Ho, the deputy chairman and an independent non-executive Director, and his elder brother. Kopola is therefore an Associate of Mr. Ho and is regarded as a connected person of the Company under Rule 14A.11 of the Listing Rules.
- (5) Pursuant to the Placing Agreement, the Placing Agent will procure, on a best effort basis, no less than six Placees to subscribe by cash for Placing Convertible Notes. All the Placees and their respective ultimate beneficial owners will be independent of, not connected and not acting in concert with the Company, each of the Subscribers and their respective connected persons (as defined under the Listing Rules) and concert parties, and are not connected persons of the Company. None of the Placees will be a Subscriber.
- (6) Completion of the Subscription under each of the Subscription Agreements is conditional upon, inter alia, the Company having confirmed that the aggregate principal sum of the Subscription Convertible Notes and Placing Convertible Notes shall not be less than HK\$1,000 million and that such amount, after deducting all related expenses, shall be payable to, and for the account of, the Company. Such condition is waivable by the relevant Subscribers.

## LETTER FROM ORIENTAL PATRON

### *Connected Transaction between the Company and Kopola*

As Mr. Ho is a connected person of the Company under Rule 14A.11 of the Listing Rules, Kopola being an Associate of Mr. Ho is regarded as a connected person of the Company under Rule 14A.11 of the Listing Rules. Therefore, the subscription of Subscription Convertible Notes by Kopola (“Kopola Subscription”) constitutes a connected transaction of the Company under Rules 14A.13(1)(a) of the Listing Rules. Accordingly, the completion of the subscription of the Subscription Convertible Notes by Kopola is subject to the approval of the independent Shareholders on which voting shall be taken by poll. Kopola and its Associates have no shareholding interests in the Company as at the Latest Practicable Date.

The directors and chief executive of the Company and their respective Associates and party acting in concert with any of them will abstain from voting at the SGM on the resolutions to approve the creation and issue of the Subscription Convertible Notes and the Placing Convertible Notes and the issue and allotment of new Shares resulting from the exercise of the conversion rights attached to the relevant Subscription Convertible Notes and Placing Convertible Notes, on which voting shall be taken by poll.

### **THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of four executive Directors, namely Mr. Cheung Hon Kit, Mr. Tse Cho Tseung, Ms. Cheung Sze Man and Mr. Chan Fut Yan; a non-executive Director, namely Mr. Lo Lin Shing, Simon; four independent non-executive Directors, namely Mr. Ho, Mr. Wong Chi Keung, Alvin, Mr. Kwok Ka Lap, Alva and Mr. Zhang Shichen.

Under Rule 13.39(6)(a) of the Listing Rules, the Independent Board Committee shall consist only of independent non-executive Directors. Mr. Kwok Ka Lap, Alva, an independent non-executive Director, is also an independent non-executive director of Hanny, the holding company of one of the Subscribers Loyal Concept. Mr. Ho, an independent non-executive Director, holds 50% in the share capital of Kopola, one of the Subscribers and thus has an interest in the Subscription Agreement. Accordingly, none of these Directors is considered sufficiently independent so far as the Subscription and the Placing are concerned and therefore they have not participated in formulating recommendations to the independent Shareholders so as to avoid any potential conflict of interest which may arise.

The Independent Board Committee, comprising two independent non-executive Directors, namely Mr. Wong Chi Keung, Alvin and Mr. Zhang Shichen, has been formed to advise the independent Shareholders in connection with the Subscription and the Placing and the Kopola Subscription which constitutes a connected transaction of the Company under Rule 14A.13(1)(a).

We have been appointed by the Independent Board Committee to advise them and the independent Shareholders as to whether (i) the Subscription and the Placing are fair and reasonable and are in the interests of the Company and the Shareholders as a whole; and (ii) the terms of Kopola Subscription, so far as the independent Shareholders are

## LETTER FROM ORIENTAL PATRON

concerned, are no less favourable to the Company than terms available from Subscription Agreements (other than the Kopola Subscription) and the Placing Agreement, and to give our opinion in relation to the Subscription and the Placing and the Kopola Subscription for the Independent Board Committee's consideration in making their recommendation to the independent Shareholders.

### **BASIS OF AND ASSUMPTIONS OF OUR OPINION**

In formulating our opinion, we have relied on the information, statements of belief, opinions, intention of the Directors and representations contained or referred to in the Circular and information and representations provided to us by the Company and/or the Directors. We have assumed that all such information, statements of belief, opinions, intention of the Directors and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and or/Directors and for which it is/they are solely and wholly responsible, are true and accurate and valid at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinions and intention of the Directors as set out in "Letter from the Board" were reasonably made after due and careful enquiry. We have also assumed that HK\$1,000 million will be raised under the terms of the Subscription Agreements and the Placing Agreement. We have also sought and obtained confirmation from the Company and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We confirm that we have reviewed all currently available information and documents which enable us to reach an informed view to justify the reliance on the information provided so as to provide a reasonable basis of our opinions. We have no reason to suspect the truth, accuracy and completeness of the information statements of belief, opinions, intention of the Directors and representations contained or referred to in the Circular and information and representations provided to us by the Company and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out any independent verification on the information provided to us, nor have we conducted any form of independent investigation into the business and affairs or the prospects of the Group.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinion in connection with the Subscription and the Placing and the Kopola Subscription, we have taken the following principal factors and reasons into consideration:

#### **1. Background and reasons for the Subscription and the Placing**

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.

## LETTER FROM ORIENTAL PATRON

As stated in the circular of the Company dated 6 January 2005, the local economic environment has been improving and the property market in Hong Kong has significantly recovered during 2004. There is an optimistic expectation on the property market in Hong Kong and in particular, there will be solid demand for premium office space and residential units over the medium to long term. As stated in the Company's annual report for the year ended 31 March 2004, the Board was of the view that the property market will bring a 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 the property business, the Board has decided to further expand the Group's investment properties portfolio in high quality residential and commercial buildings in Hong Kong and other areas that the Board may think fit. The Group is still focusing on this business development approach and the Board has kept on exploring suitable investment opportunities.

As at the Latest Practicable Date, the Company is still in preliminary discussion with certain independent third parties to explore the possibility of acquiring certain properties located in Hong Kong, the PRC or Macau. However, no contract or agreement has been entered into for any of these possible acquisitions.

In the past 12 months immediately before the date of the Announcement, the Company has, by way of issuing new shares and convertible instruments, raised in aggregate net proceeds of approximately HK\$189 million. Out of which approximately HK\$15 million was used for the acquisition of a pharmaceutical business, approximately HK\$23 million were used as general working capital and approximately HK\$7 million were used for repayment of certain short-term borrowings, with the remaining balance of approximately HK\$144 million in bank deposits as at the Latest Practicable Date. Of the approximately HK\$144 million deposited in banks, approximately HK\$90 million was reserved for the expansion of the Group's investment properties portfolio, approximately HK\$26 million will be used for general working capital and the remaining approximately HK\$28 million will be used for repayment of the outstanding short-term borrowings.

In order to build up a meaningful investment properties portfolio, we are of the opinion that a sizeable funding should be made available well ahead so that the Group is able to seize the investment opportunities as when they arise.

Having considered the above, so far as the factors and reasons for the Subscription and the Placing are concerned, we note that the Company will be able to raise additional net funding of approximately HK\$996 million for its expansion in the investment properties portfolio which is in the interests of the Group.

## **2. Funding methods**

The Board has considered various ways of raising funds other than the Subscription and the Placing, such as bank borrowings, rights issue, open offer and share placement. However, the Board considers that such other methods of financing would be less preferable and effective than the Subscription and the Placing in view of the Group has been operating at losses in the past years, the size of the new capital to be raised, more cost and time required for other funding arrangements such as rights issue, open offer and banking borrowing and the immediate dilution of existing shareholders' interests as a result of share placement which usually involves an issue of new shares at a discount to the market price of the shares.

### *(i) Bank Borrowings*

Based on the published unaudited consolidated balance sheet of the Group as at 30 September 2004, the Group has a debt ratio of 62.23% (being the total liabilities of approximately HK\$214.25 million divided by the total asset value of the Group of approximately HK\$344.29 million) and a gearing ratio of 140.57% (being the Group's total borrowings of approximately HK\$149.45 million divided by the Group's consolidated net tangible asset of approximately HK\$106.32 million). Both ratios indicate the Group has already relied extensively on external borrowings such as bank loans and therefore further financing by bank or other borrowings may not be preferable or realistic or effective without an increase of the Company's capital base. In addition, bank borrowings will normally incur periodic interest payment and is generally considered relatively costly.

### *(ii) Rights Issues/Open Offer*

Rights issue is an offer by way of rights to existing shareholders which enables those shareholders to subscribe new shares in proportion to their existing shareholdings.

An open offer is an offer to existing shareholders to subscribe new shares, whether or not in proportion to their existing shareholdings.

Under the Listing Rules, if the proposed rights issue or open offer would increase either share capital or the market capitalization of the issuer by more than 50%, the open offer or rights issue must be made conditional on approval of shareholders in general meeting. Both rights issue and open offer must be supported by a listing document. In addition, both rights issue and open offer are required to have a minimum acceptance period of not less than 14 days and allow further time for announcement of results of the offer and the despatch of relevant share certificates. Further, it is very common and generally accepted that both rights issues and open offer are to be priced at a discount to the prevailing market price of the existing shares. In view of the amount of new capital of approximately HK\$1,000 million to be raised, the whole process (starting from the date of entering into the underwriting agreement) may take up to 60 days or more.

## LETTER FROM ORIENTAL PATRON

Under the Listing Rules, both rights issue and open offer in normal circumstances must be fully underwritten. Given the size of the funds to be raised is approximately HK\$1,000 million and the loss positions of the Group for the past two years ended 31 March 2004, the chances of successfully assembling an underwriting syndicate within a relatively short period of time and cost is less certain.

It is obvious that financing by means of right issue and open offer is both relatively costly and time consuming.

*(iii) Placement of new Shares*

Placement of new Shares is the issuing of new shares by the Company which usually priced at a discount to the market price of the Shares and will immediately dilute the existing shareholders interests.

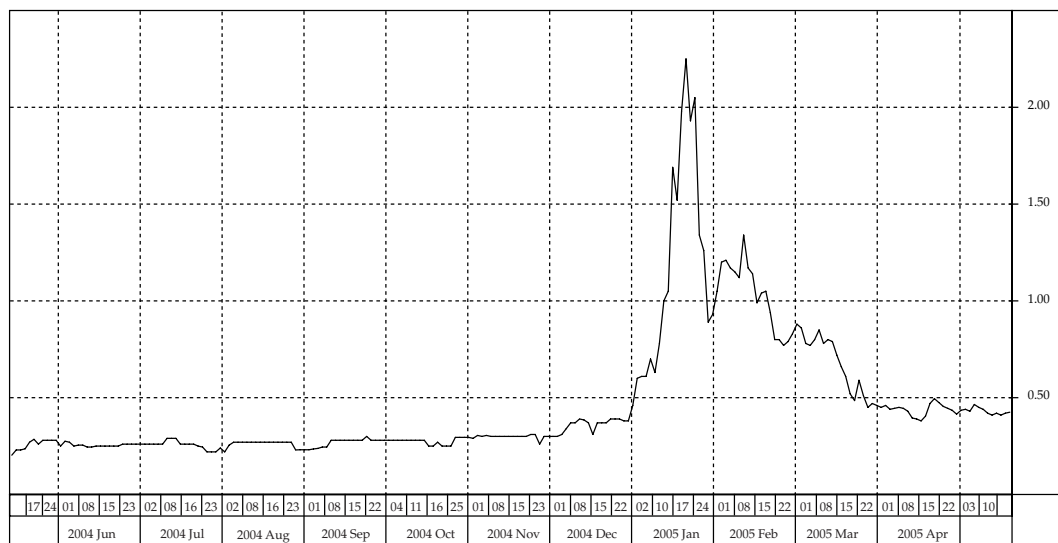
Set out below is the recent placement of new shares (“Price Comparables”) for the last six months by companies listed on the main board of the Stock Exchange with principal activities in property investment in Hong Kong and the PRC.

| Date of relevant announcement | Stock code | Name of company                         | Placing price of share | Discount of the placing price of share to the last trading day immediately before trading in the share was suspended pending the release of the relevant announcement |
|-------------------------------|------------|---|------------------------|---|
| 15 December 2004              | 199        | The Company                             | HK\$0.40               | 13.0%   |
| 28 December 2004              | 199        | The Company                             | HK\$0.81               | 19.0%   |
| 5 January 2005                | 193        | Capital Estate Limited                  | HK\$0.0265             | 14.5%   |
| 18 January 2005               | 733        | Hopefluent Group Holdings Limited       | HK1.38                 | 1.4%  |
| 24 January 2005               | 112        | Chi Cheung Investment Company, Limited  | HK\$0.95               | 12.8%   |
| 27 January 2005               | 2868       | Beijing Land Ltd.                       | HK\$2.16               | 9.0%  |
| 1 February 2005               | 286        | G-Prop (Holdings) Limited               | HK\$0.255              | 16.4%   |
| 22 March 2005                 | 1200       | Midland Reality (Holdings) Limited      | HK\$4.87               | 8.1%  |
| 20 April 2005                 | 412        | Heritage International Holdings Limited | HK\$0.16               | 11.1%   |

## LETTER FROM ORIENTAL PATRON

The placing price of the Price Comparables were all set at discounts, ranging from approximately 1.4% to 19.0%. The Company had entered into two separate placement agreements on 15 December 2004 and 28 December 2004 at an issue price of HK\$0.40 and HK\$0.81 respectively. The respective issue prices of such share placements were at a discount of 13% and 19% to the last trading day before release of its relevant announcement.

The chart below sets out the movement of the closing price of the Shares from the period of May 2004 to the Latest Practicable Date:



Source: Bloomberg

As illustrated in the chart above, the average closing price of the Shares were HK\$0.27 from the period of 1 May 2004 to 30 November 2004. Share prices surged rapidly from mid December to the highest of HK\$2.25 on 4 January 2005. During the last two weeks of December 2004, the Company conducted two share placements at a higher market price than the average closing price of Shares from the period of 1 May 2004 to 31 November 2004. The market prices of the Shares fell sharply to HK\$0.88 per Share on 11 January 2005. Apart from a rebound briefly in mid January to HK\$1.37 per Share on 21 January 2005, the market prices of the Shares were generally in a downward trend and below HK\$0.50 per Share since early March 2005. As at the Latest Practicable Date, the closing price per Share is HK\$0.425.

Having considered the recent market prices of the Shares which is on a downward trend, size of the funds to be raised and expected discount at the share price for a share placement, we are of the view that placement of new Shares is not an appropriate means of fund raising at this point in time.



## LETTER FROM ORIENTAL PATRON

(iv) *Convertible Instruments*

Convertible instruments such as the Subscription Convertible Notes and Placing Convertible Notes are also common means of financing by listed issuers in Hong Kong. It represents a loan from the subscriber to the issuer which, generally at the option of the subscriber, can be converted into share capital of the issuers at a pre-determined price which may be priced at a premium or discount to the prevailing market price of the shares. Convertible instruments may or may not bear interest.

Under the terms of the Subscription Convertible Notes and the Placing Convertible Notes, both notes are not interest bearing but are subject a redemption amount of 110% of the Subscription Convertible Notes and the Placing Convertible Notes. Therefore, unlike bank borrowings, the Company would not be required to pay periodic financing charges unless on Maturity.

The completion of Subscription Convertible Notes and the Placing Convertible Notes are also made conditional upon, amongst others, approval of Shareholders or independent Shareholders (as the case may be) at the SGM. However, there will be no requirement for a minimum period of acceptance or further announcement of results of the offer or despatch of share certificates, etc. Therefore the whole process will be completed in a shorter period of time than those of the rights issues and open offers for the same amount raised.

In addition, the Subscription Convertible Notes and the Placing Convertibles Notes are not required to be supported by listing document and on fully underwritten basis and therefore, the relevant preparation cost is also considered less in general.

Based on the foregoing, we are of the view that other methods of financing such as bank borrowings, rights issue, open offer and share placement would be less preferable and less effective than the issue of convertible instruments such as the Subscription Convertible Notes and the Placing Convertible Notes.

## LETTER FROM ORIENTAL PATRON

### 3. Key terms and conditions of the Subscription Convertible Notes and the Placing Convertible Notes

The terms of the Subscription Convertible Notes and the Placing Convertible Notes (collectively called “Convertible Notes”) are identical, which are summarized as follows:

(i) *Initial Conversion Price*

The premium of the initial conversion price of HK\$0.44 per Share (subject to adjustments in certain events including, among other things, share consolidation, share subdivision, capitalization issue, capital distribution and right issues) to the closing price of the Share for different periods are set out in the following table:

| Date/period  | Closing price/average closing price per Share for the period | Premium of the conversion price to the closing price/average closing price per Share in the respective period |
|--|--|---|
| 24 March 2005, being the last trading day for the Share before the date of the Announcement (the “Last Trading Day”) | HK\$0.405  | 8.6%  |
| 10 days up to and including the Last Trading Day   | HK\$0.424  | 3.8%  |
| 19 May 2005, being the Latest Practicable Date   | HK\$0.425  | 3.5%  |
| 10 days up to and including the Latest Practicable Date  | HK\$0.429  | 2.7%  |

## LETTER FROM ORIENTAL PATRON

We have looked into the recent issues of convertible instruments (the “CB Comparables”) for the last six months by companies listed on the main board of the Stock Exchange with principal activities in the property development and investment and of market capitalizations ranging from approximately HK\$130 million to approximately HK\$20,416 million. Set out below is a summary of the CB Comparables.

| Date of relevant circular/<br>announcement <sup>^</sup> | Stock code | Name of company                           | Principal amount of the convertible bond/note<br>(HK\$ million) | Maturity (years) | Yield to maturity (%) | Interest rate per annum (%) | Premium/<br>(discounts) of the conversion price to the closing price of the shares on the last trading day prior to the related announcement |
|---|------------|---|---|------------------|-----------------------|-----------------------------|--|
| 10/11/2004 <sup>^</sup><br>26/11/2004 <sup>^</sup>      | 35         | Far East Consortium International Limited | 656+98.4*<br>= 754.4  | 5                | 2.2                   | 0                           | 34.43%   |
| 04/02/2005  | 1215       | Guo Xin Group Limited                     | 46  | 3                | 5.96                  | 5                           | (17.3)%  |
| 11/03/2005  | 683        | Kerry Property Limited                    | 2,500   | 5                | 0                     | 0                           | 33.44%   |
| High  |            |   |   |                  |                       |                             | 34.43%   |
| Low   |            |   |   |                  |                       |                             | (17.3)%  |
| Average   |            |   |   |                  |                       |                             | 16.86%   |
| 23/05/2005  | 199        | The Company                               | 1,000   | 5                | 1.9                   | 0                           | 8.6%   |

\* *The bonds holder exercised its option to require the issuer to issue the optional bonds in the aggregate principal amount of HK\$98.4 million.*

The conversion prices of the CB Comparables were set at premium/ (discounts), ranging from a discount of approximately 17.3% to a premium of approximately 34.43% to the closing price of the shares on the last trading day prior to the dates of the related announcements. The conversion price of the Convertible Notes represents a premium of 8.6% to the closing price of the Shares on the last trading day prior to the date of the Announcement, which fall within the range and is in the medium among those of the CB Comparables.

## LETTER FROM ORIENTAL PATRON

### *(ii) Interest*

As at 30 September 2004, the Group has bank and other borrowings of approximately HK\$149.45 million, of which current portion is HK\$119.45 million and the non-current portion is HK\$30 million. With reference to the Company's interim report for the six-month period ended 30 September 2004 and its annual report for the year ended 31 March 2004, the interest rates of the borrowings ranged from 2% to 12% per annum ("Borrowing Cost").

We have also looked into the interest rates of the CB Comparables. The CB Comparables carry annual interest rates ranging from 0% to 5% (the "CB Cost"). Although the Convertible Notes are not interest bearing, they are subject for redemption by the Company at 110% of the principal amount of the Convertible Notes outstanding on Maturity Date, which is the fifth anniversary from the date of issue of the Convertible Notes. The Convertible Notes therefore has an effective interest cost of approximately 1.9% per annum.

Compared with both the Borrowing Cost and the CB Cost, the effective interest cost of the Convertible Notes is more favourable than the existing Borrowing Cost and falls within the range of the CB Cost.

### *(iii) Redemption*

Under the terms of the Convertible Notes, unless previously converted and cancelled, the Company will redeem each Convertible Note on the Maturity Date at the redemption amount which is 110% of the principal amount of the Convertible Notes outstanding.

The redemption amount of 110% to the principal amount of the Convertible Notes represents an expected yield to maturity of approximately 1.9% per annum which is the second lowest among the CB Comparables.

In addition, before the Maturity Date, the Company or any of its subsidiaries may purchase the Convertible Notes at any price as agreed between the Company or such subsidiary and the holders of the Convertible Notes. The Directors has indicated that the Company will not consider an early redemption of the Convertible Notes unless such redemption would make the Group in a better position than a redemption on the Maturity Date. We take the view that this would provide the Company with an opportunity to early redeem the Convertible Notes in whole or in part if the prevailing financial position allows and would not prejudice the interests of the Company.

## LETTER FROM ORIENTAL PATRON

*(iv) Conversion period*

Under the terms of the Convertible Notes, if at any time after the first anniversary of the issue date of the Convertible Notes the average closing price per Share for 20 consecutive dealing days is higher than HK\$0.85 (subject to adjustments in the events of share consolidation and share subdivision) (“Trigger Price”), all the then outstanding Convertible Notes will be deemed to be converted at the then prevailing conversion price (the “Mandatory Conversion”).

It is reasonable to assume that the business and financial performance of the Group, to certain extent, can be reflected from the market price per Share. In the event that the performance of the Group has a significant improvement, the Mandatory Conversion mechanism would facilitate the Company to convert the liabilities under the Convertible Notes into equity capital on its own, thus enlarging the capital base of the Group and reducing the gearing ratio of the Group. In addition, the Company would not be required to look for alternative funding or realizing its assets or property portfolio with a view to finance redemption of the Convertible Notes on Maturity Date.

*(v) Maturity*

The Convertible Notes has a term of five years from the date of issue. We consider that five years is an appropriate term for the financing of the Company’s expansion of its investment properties portfolio which is capital in nature.

Based on the foregoing, we are of the view that the terms of the Convertible Notes are in the interests of the Company.

#### **4. Financial effects of the Subscription Agreements and the Placing Agreement**

*(i) Capital structure ratios*

Comparisons between the common capital structure ratios of the Group as at 30 September 2004 and upon the issue of the Convertible Notes are set out as below:

| <b>Ratios</b>     | <b>As at<br/>30 September<br/>2004</b> | <i>Note</i> | <b>Immediate upon<br/>the issue of the<br/>Convertible Notes</b> | <i>Note</i> |
|-------------------|--|-------------|--|-------------|
| Gearing ratio     | 141%                                   | (1)         | 1,123%   | (2),(7)     |
| Debt ratio        | 62%                                    | (3)         | 91%  | (4),(7)     |
| Debt/equity ratio | 115%                                   | (5)         | 912%   | (6),(7)     |

## LETTER FROM ORIENTAL PATRON

*Notes:*

- (1) Being the Group's total borrowings of approximately HK\$149.45 million as at 30 September 2004 divided by its consolidated net tangible assets of approximately HK\$106.32 million as at 30 September 2004.
- (2) Being the Group's adjusted total borrowings of approximately HK\$1,149.45 million (the aggregate amount of total borrowing as at 30 September 2004 and the aggregate principal amount of the Convertible Notes) divided by its adjusted consolidated net tangible assets of HK\$102.32 million following the issue of the Convertible Notes.
- (3) Being the Group's total liabilities of approximately HK\$214.25 million as at 30 September 2004 divided by its consolidated total asset value of approximately HK\$344.29 million as at 30 September 2004.
- (4) Being the Group's adjusted total liabilities of approximately HK\$1,214.25 million (the aggregate amount of the total liabilities as at 30 September 2004 and the aggregate principal amount of the Convertible Notes) divided by its adjusted consolidated total asset value of approximately HK\$1,340.29 million following the issue of the Convertible Notes.
- (5) Being the Group's total borrowings of approximately HK\$149.45 million as at 30 September 2004 divided by its consolidated net asset value of approximately HK\$130.04 million as at 30 September 2004.
- (6) Being the Group's adjusted total borrowings of approximately HK\$1,149.45 million (the aggregate amount of total borrowing as at 30 September 2004 and the aggregate principal amount of the Convertible Notes) divided by its adjusted consolidated net asset value of approximately HK\$126.04 million following the issue of the Convertible Notes.
- (7) The relevant capital structure ratios have not taken into account of any financial results of the Group after 30 September 2004, the placing of new Shares as announced on 15 December 2004 and 28 December 2005 and an increase in borrowings as a result of the issue of 2005 February Convertible Notes.

Common with other debt based financing options such as bank borrowings, the issue of the Convertible Notes will further increase all of the common capital structure ratios of the Group, indicating that immediately upon issue of the Convertible Notes, will substantially increase the Group's reliance of external borrowings vis-a-vis its shareholders' equity. The higher the capital structure ratios indicates the Group is assuming an increasing liquidity risks toward the Maturity Date because under the terms of the Convertible Notes the Company is required to redeem the outstanding principal of the Convertible Notes on Maturity Date unless the Convertible Notes are converted into Shares at the option of Subscribers or under the Mandatory Conversion mechanism.

Having considered the issue of convertible instruments such as the Convertible Notes being a preferable and effective funding method than various ways of raising funds such as rights issue, open offer and share placement which do not have a negative effect on the Group capital structure, we consider the potential negative effect on capital structure of the Group is justifiable.

## LETTER FROM ORIENTAL PATRON

Moreover, the maturity period of 5 years which would allow the Company reasonably sufficient time to enhance the earnings of the Group by properties investment and in due course to exploring the repayment means for the redemption of the Convertible Notes on Maturity Date if any of the Convertible Notes are not converted.

(ii) *Net assets value per Share*

Based on the Group's consolidated net asset value of approximately HK\$130 million as at 30 September 2004 and 360,995,507 Shares, being the number of issued Share of the Company as at the date of the Announcement, the initial conversion price of HK\$0.44 per Share represent a premium of approximately 22.2% over such unaudited net asset value per Share of approximately HK\$0.36.

We note that since the number of issued Shares as at the date of the Announcement does not correspond to the net asset value as at 30 September 2004 and has not included 279,761,897 new Shares issued subsequent to 30 September 2004 and up to the Latest Practicable Date, the above net asset value to the number of issued Share is not representative.

Based on 408,614,553 Shares, being the number of issued Shares of the Company as at the Latest Practicable Date and the Group's consolidated net asset value of HK\$239 million (being the consolidated net asset value of approximately HK\$130 million as at 30 September 2004 and taken into the issue of further Shares subsequent from 30 September 2004 to the Latest Practicable Date which include (i) the placing of 150,000,000 new Shares as announced by the Company on 15 December 2004; (ii) the placing of 25,000,000 new Shares as announced by the Company on 28 December 2004; and (iii) 71,428,566 Shares issued and allotted by the Company as a result of the exercise of conversion rights attaching to the 2005 February Convertible Note) but without taken into the account of the financial results after 30 September 2004, the initial conversion price of HK\$0.44 per Share represents a discount of 25.4% to the adjusted net asset value per Share of approximately HK\$0.59 ("1st Adjusted NAV per Share").

Immediate upon issue of the 2,272,727,272 Conversion Shares in full, without taken into the account of the financial results after 30 September 2004, the consolidated net asset value of the Group will be approximately HK\$1,235 million (being the adjusted consolidated net asset value of approximately HK\$239 million and the net proceeds of approximately HK\$996.0 million from the Subscription and Placing of Convertible Notes), the total number of issued Shares of the Company will be increased to approximately 2,681 million, representing a net asset value per Share of HK\$0.46 per Share ("2nd Adjusted NAV per Share"). The 2nd Adjusted NAV per Share will therefore decrease by approximately 22% as compared with the 1st Adjusted NAV per Share by.

## LETTER FROM ORIENTAL PATRON

*(iii) Funding for expansion in investment properties portfolio*

As at the Latest Practicable Date, the Company has reserved approximately HK\$90 million from part of the net proceeds from issue of convertible notes and placing of new Shares on February 2005 for expansion in investment properties portfolio. The aggregate principal amount of the Subscription Convertible Notes and the Placing Convertible Notes shall not be less than HK\$1,000 million unless it is waived by relevant Subscribers. The Subscription and the Placing will substantially increase the total funding available for such expansion plan to approximately HK\$1,086 million.

*(iv) Potential dilution to shareholding of the independent Shareholders*

Upon full conversion of the Convertible Notes, a total of 2,272,727,272 new Conversion Shares will be issued to the Subscribers and the Placees representing approximately 556% and 84.7% of the existing issued share capital and the enlarged share capital of the Company respectively.

Set out below is a table showing the Company's shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) assuming all the Subscription Convertible Notes have been converted; (iii) assuming all the Placing Convertible Notes have been converted; (iv) assuming all the Subscription Convertible Notes and Placing Convertible Notes have been converted; and (v) assuming all the Subscription Convertible Notes and Placing Convertible Notes and 2005 February Convertible Notes have been converted:

|  | Number of Shares (%)                   |                                    |       |
|--|--|------------------------------------|-------|
|  | Other<br>shareholders<br><i>(note)</i> | Existing<br>Public<br>shareholders | Total |
| As at the Latest Practicable Date  | 7.0                                    | 93.0                               | 100   |
| Assuming all the Subscription<br>Convertible Notes have been converted   | 85.3                                   | 14.7                               | 100   |
| Assuming all the Placing Convertible<br>Notes have been converted  | 25.3                                   | 74.7                               | 100   |
| Assuming all the Subscription<br>Convertible Notes and Placing<br>Convertible Notes have been converted  | 85.8                                   | 14.2                               | 100   |
| Assuming all the Subscription<br>Convertible Notes and Placing<br>Convertible Notes and 2005 February<br>Convertible Notes have been converted | 79.5                                   | 20.5                               | 100   |



## LETTER FROM ORIENTAL PATRON

*Note:* Other shareholders includes: (1) Lunghin Enterprise Inc, a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, an executive Director; (2) the Subscribers; and (3) the Placees.

Upon the full conversion of the Convertible Notes, the aggregate shareholding of the existing public Shareholders will decrease from approximately 93% to 14.2%. If taken into account both the Convertible Notes and the 2005 February Convertible Notes by the Company, upon their full conversion, the aggregate shareholding of the public Shareholders will decrease from approximately 93% to 20.5%, representing a dilution of approximately 78%.

It is noted that the average closing price per Share from the first trading date following the publication of the Announcement to the Latest Practicable Date of approximately HK\$0.44 is equal to the initial conversion price, and the existing Shareholders are free to top-up their interest in the Company at the same price as the Subscribers at the initial conversion price of HK\$0.44. In addition, taking into account that (i) the shareholdings of all the existing Shareholders will be diluted to the same extent upon full conversion of the Convertible Notes; (ii) the Conversion Notes will provide sizeable funding to finance the expansion of the Group's investment properties portfolio at no interest payment outlay to the Company unless on Maturity; and (iii) the initial conversion price of HK\$0.44 per Share is set at a premium to trading price of the Shares at the Last Trading Day, we consider such potential dilution to the shareholding of the independent Shareholders are acceptable in so far as the independent Shareholders are concerned.

### **5. The Kopola Subscription**

The Kopola Subscription is one of the nine Subscription Agreements along with the seven Fund Subscribers and Hanny. The Kopola Subscription represents approximately 15.69% of Subscription Convertible Notes in terms of aggregate principal amount raised. The principal terms of the convertible notes under the Kopola Subscription are identical with all of the other Subscription Convertible Notes and Placing Convertible Notes.

Since the principal terms of convertible note under Kopola Subscription are identical to the principal terms of all of the other Subscription Convertible Notes and Placing Convertible Notes, we consider that the Kopola Subscription is on terms no less favourable to the Company than terms available from Subscription Agreements (other than the Kopola Subscription) and the Placing Agreement.

## LETTER FROM ORIENTAL PATRON

### CONCLUSION

Having taken into consideration the above principal factors and reasons, in particular:

- (i) the Subscription and the Placing will be able for the Company to raise additional net funding of approximately HK\$996 million for its expansion in the investment properties portfolio which is the interests of the Group;
- (ii) other methods of financing such as bank borrowings, rights issue, open offer and share placement would be less preferable and less effective than the issue of convertible instruments such as the Subscription Convertible Notes and the Placing Convertible Notes;
- (iii) the principal terms of the Convertible Notes including the Initial Conversion Price, the redemption premium, Mandatory Conversion mechanism, and the maturity period are reasonable;
- (iv) the potential impact on over reliance of the Group's external borrowing is justifiable;
- (v) the potential dilution of net asset value per Share and the shareholding of Independent Shareholders are acceptable; and
- (vi) the principal terms of convertible note under the Kopola Subscription are identical to the principal terms of the Subscription Convertible Notes and Placing Convertible Notes,

we are of the opinion that (i) the Subscription and the Placing are fair and reasonable, so far as the independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole; and (ii) the principal terms of Kopola Subscription, so far as the independent Shareholders are concerned, are on terms no less favourable to the Company than terms available from Subscription Agreements (other than the Kopola Subscription) and the Placing Agreement.

We advise the Independent Board Committee accordingly and would recommend to the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the SGM to approve the Subscription and the Placing and the transactions contemplated thereunder including the issue of the Convertible Notes and the issue and allotment of the Shares upon conversion of the Convertible Notes and the connected transaction between the Company and Kopola in relation to the Subscription.

Yours faithfully,

For and on behalf of

**Oriental Patron Asia Limited**

**Jeffrey Chan**

*Director*

**Ivan Tong**

*Associate Director*

## 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. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date, the following Directors were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company to be notified to the Company and the Stock Exchange.

### Long Position in the Shares:

| Name               | Capacity                       | Number of Shares held | Approximate Percentage of shareholding |
|--------------------|--------------------------------|-----------------------|--|
| Mr. Tse Cho Tseung | Held by controlled corporation | 28,558,196<br>(Note)  | 7.0%                                   |

*Note:* These Shares were beneficially owned by Lunghin Enterprise Inc. ("Lunghin"), a company incorporated in the British Virgin Islands, whose entire issued share capital is beneficially owned by Mr. Tse Cho Tseung, an executive Director.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors and chief executive were interested, or were deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code of Securities Transactions by Directors adopted by the Company to be notified to the Company and the Stock Exchange.

## 3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests in long positions and short positions kept by the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO and so far as the Directors were aware, the following persons or

corporations (other than those of the Subscribers and their respective Associates arising from the Subscription) had a long position or short position in the shares, underlying shares or debentures 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 were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each of such person's/corporation's interest in such securities, together with particulars of any options in respect of such capital:

**Long Position in the Shares:**

| Name                               | Capacity                           | Number of issued Shares | Number of underlying Shares | Aggregate interest | Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date |
|------------------------------------|------------------------------------|-------------------------|-----------------------------|--------------------|---|
| Lunghin (Note 1)                   | Beneficial owner                   | 28,558,196              | –                           | –                  | 7.0   |
| Visionary Profits Limited (Note 3) | Beneficial owner                   | 21,289,523              | 7,142,857<br>(Note 2)       | 28,432,380         | 7.0   |
| Han Yuanlin (Note 3)               | Interest of controlled corporation | 21,289,523              | 7,142,857<br>(Note 2)       | 28,432,380         | 7.0   |
| Playway Limited (Note 4)           | Beneficial owner                   | 23,809,523              | 23,809,523<br>(Note 2)      | 47,619,046         | 11.65   |
| Suen Hung Fai (Note 4)             | Interest of controlled corporation | 23,809,523              | 23,809,523<br>(Note 2)      | 47,619,046         | 11.65   |
| Yu Chi Wai (Note 4)                | Interest of controlled corporation | 23,809,523              | 23,809,523<br>(Note 2)      | 47,619,046         | 11.65   |
| PSC Corporation Ltd.               | Beneficial owner                   | –                       | 47,619,047<br>(Note 2)      | 47,619,047         | 11.65   |
| Link Merit Limited (Note 5)        | Beneficial owner                   | –                       | 47,619,047<br>(Note 2)      | 47,619,047         | 11.65   |
| Wong Yung-tyng (Note 5)            | Interest of controlled corporation | –                       | 47,619,047<br>(Note 2)      | 47,619,047         | 11.65   |
| Ng Po Chun Kevin                   | Beneficial owner                   | –                       | 23,809,523<br>(Note 2)      | 23,809,523         | 5.83  |

**Short Position in the Shares:**

| <b>Name</b>          | <b>Capacity</b>  | <b>Number of issued Shares</b> | <b>Number of underlying Shares</b> | <b>Aggregate interest</b> | <b>Approximate percentage of the issued share capital of the Company as at the Latest Practicable Date</b> |
|----------------------|------------------|--------------------------------|------------------------------------|---------------------------|--|
| PSC Corporation Ltd. | Beneficial owner | –                              | 47,619,047                         | 47,619,047                | 11.65  |

*Notes:*

1. Mr. Tse Cho Tseung, an executive Director, is also a director of Lunghin.
2. The underlying Shares represent the new Shares to be issued upon full conversion at the initial conversion price of HK\$0.42 per Share of the portion of the 2005 February Convertible Notes held by the relevant person or corporation.
3. Visionary Profits Limited is wholly owned by Mr. Han Yuanlin. Accordingly, Mr. Han Yuanlin is deemed to be interested in the interests of Visionary Profits Limited pursuant to Part XV of the SFO.
4. Playway Limited is 50% owned by Mr. Suen Hung Fai and 50% owned by Mr. Yu Chi Wai respectively. Accordingly, each of Mr. Suen Hung Fai and Mr. Yu Chi Wai is deemed to be interested in the interests of Playway Limited pursuant to Part XV of the SFO.
5. Link Merit Limited is wholly-owned by Mr. Wong Yung-tyng. Accordingly, Mr. Wong Yung-tyng is deemed to be interested in the interests of Link Merit Limited pursuant to Part XV of the SFO.

Save as disclosed in this circular and other than the interests of the Subscribers and their respective Associates arising from the Subscription, the Directors are not aware of any other persons or corporations as at the Latest Practicable Date, which had any long position or short position in the shares, underlying shares or debentures 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/which was directly or indirectly interested in 10% 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 members of the Group, or any options in respect of such capital.

#### 4. COMPETING INTERESTS

Interests of Directors in competing businesses to the Group as at the Latest Practicable Date required to be disclosed pursuant to Rule 8.10 of the Listing Rules were as follows:

| Name of Director    | Name of company  | Nature of competing business                                   | Nature of interest  |
|---------------------|--|--|---|
| Cheung Hon Kit      | Paul Y. – ITC Construction Holdings Limited and its subsidiaries   | Property investments in Hong Kong and in the PRC               | As an executive director  |
|                     | Wing On Travel (Holdings) Limited and its subsidiaries             | Property business in Hong Kong                                 | As the managing director  |
|                     | China Strategic Holdings Limited and its subsidiaries              | Property business in the PRC                                   | As a director of the relevant subsidiary of China Strategic Holdings Limited which engaged in property business |
| Lo Lin Shing, Simon | The Kwong Sang Hong International Limited and its subsidiaries     | Property development, sales of properties and property leasing | As a director   |
|                     | Besteam Limited and its subsidiaries                               | Property development and property investment                   | As a director   |
|                     | New World Cyberbase Limited and its subsidiaries                   | Property investment  | As an executive director  |
| Mr. Ho              | Miramar Hotel and Investment Company, Limited and its subsidiaries | Property investment, property development and sales            | As a director   |

Save as disclosed above, none of the Directors or their respective Associates was interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

#### 5. SERVICE CONTRACTS

As at the Latest Practicable Date, there were no existing or proposed service contracts between any of the Directors and any member of the Group, excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

**6. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial and trading position of the Group since 31 March 2004, being the date to which the latest published audited financial statements of the Company were made up.

**7. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS**

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been, since 31 March 2004, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which is significant in relation to the businesses of the Group.

**8. CONSENT OF EXPERT**

Oriental Patron has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Oriental Patron was not interested in any Shares or shares in any member of the Group nor did it have any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares or shares in any member of the Group.

As at the Latest Practicable Date, Oriental Patron did not have any direct or indirect interest in any asset which had been, since 31 March 2004, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to any member of the Group.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection 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 during normal business hours up to and including 7 June 2005:

- (a) the Memorandum and Bye-Laws of the Company;
- (b) the Subscription Agreements;
- (c) the Placing Agreement;
- (d) the letter from Oriental Patron, the text of which is set out in this circular; and
- (e) the consent letter of Oriental Patron referred to in the section headed "Consent of Expert" in this appendix.

## 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 7 June 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, with or without amendments, the following resolutions as ordinary resolutions of the Company:

### ORDINARY RESOLUTIONS

1. **“THAT** the seven subscription agreements all dated 8 April 2005 (**“Fund Subscription Agreements”**), copies of which have been produced to the meeting and marked “A” and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company and each of the seven Fund Subscribers (as defined in the circular of the Company dated 23 May 2005) in relation to the conditional subscription by the Fund Subscribers of the zero coupon convertible notes due 2010 in the aggregate principal amount of HK\$356 million (**“Fund Subscription Convertible Notes”**, the form of which is annexed to each of the Fund Subscription Agreements) and all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith, including (without limitation) (i) the creation and issue by the Company of the Fund Subscription Convertible Notes pursuant to the terms of the Fund Subscription Agreements and (ii) conditional on the Listing Committee of The Stock Exchange of Hong Kong Limited (**“Stock Exchange”**) agreeing to grant the listing of, and permission to deal in, the new ordinary shares of par value of HK\$0.01 each in the capital of the Company (**“Shares”**) to be issued and allotted as a result of the exercise of the conversion rights attached to the Fund Subscription Convertible Notes, the issue and allotment of new Shares pursuant to the exercise of the conversion rights attached to the Fund Subscription Convertible Notes, be and are generally and unconditionally approved in all respects and that such new 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 of the Company (**“Directors”**) be and are hereby authorized to do all such 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 Fund Subscription Agreements and the Fund Subscription 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.”

\* For identification purpose only



## NOTICE OF SGM

2. **“THAT** the subscription agreement dated 20 April 2005 (the **“Loyal Concept Subscription Agreement”**, a copy of which has been produced to the meeting and marked **“B”** and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company and Loyal Concept Limited (**“Loyal Concept”**) in relation to the conditional subscription by Loyal Concept of the zero coupon convertible notes due 2010 in the aggregate principal amount of HK\$450 million (the **“Loyal Concept Convertible Notes”**, the form of which is annexed to the Loyal Concept Subscription Agreement) and all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith, including (without limitation) (i) the creation and issue by the Company of the Loyal Concept Convertible Notes pursuant to the terms of the Loyal Concept Subscription Agreement and (ii) conditional on the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Loyal Concept Convertible Notes, the issue and allotment of new Shares pursuant to the exercise of the conversion rights attached to the Loyal Concept Convertible Notes, be and are generally and unconditionally approved in all respects and that such new 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 are hereby authorized to do all such 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 Loyal Concept Subscription Agreement and the Loyal Concept 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.”
  
3. **“THAT** the subscription agreement dated 20 April 2005 (the **“Kopola Subscription Agreement”**, a copy of which has been produced to the meeting and marked **“C”** and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company and Kopola Investment Company Limited (**“Kopola”**) in relation to the conditional subscription by Kopola of the zero coupon convertible notes due 2010 in the aggregate principal amount of HK\$150 million (the **“Kopola Convertible Notes”**, the form of which is annexed to the Kopola Subscription Agreement) and all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith, including (without limitation) (i) the creation and issue by the Company of the Kopola Convertible Notes pursuant to the terms of the Kopola Subscription Agreement and (ii) conditional on the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Kopola Convertible Notes, the issue and allotment of the new Shares pursuant to the exercise of the conversion rights attached to the Kopola Convertible Notes, be and are generally and unconditionally approved in all respects and that such new

## NOTICE OF SGM

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 are hereby authorized to do all such 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 Kopola Subscription Agreement and the Kopola 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.”

4. **“THAT** the placing agreement dated 20 April 2005 (the **“Placing Agreement”**, a copy of which has been produced to the meeting and marked “D” and initialed by the chairman of the meeting for the purpose of identification) entered into between the Company and Tai Fook Securities Company Limited (the **“Placing Agent”**) in relation to the conditional placing by the Placing Agent, on a best effort basis, of the zero coupon convertible notes due 2010 in the aggregate principal amount of HK\$44 million (the **“Placing Convertible Notes”**, the form of which is annexed to the Placing Agreement) and all the transactions contemplated thereunder and all other matters thereof and incidental thereto or in connection therewith, including (without limitation) (i) the creation and issue by the Company of the Placing Convertible Notes pursuant to the terms of the Placing Agreement and (ii) conditional on the Listing Committee of the Stock Exchange agreeing to grant the listing of, and permission to deal in, the new Shares to be issued and allotted as a result of the exercise of the conversion rights attached to the Placing Convertible Notes, the issue and allotment of the new Shares in the capital of the Company pursuant to the exercise of the conversion rights attached to the Placing Convertible Notes, be and are generally and unconditionally approved in all respects and that such new 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 are hereby authorized to do all such 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 Placing Agreement and the Placing 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*

23 May 2005, Hong Kong

## NOTICE OF SGM

*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.