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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)

**ISSUE OF CONVERTIBLE NOTES,
PLACING OF SHARES
AND
CONNECTED TRANSACTIONS**

Financial Adviser to Cheung Tai Hong Holdings Limited



SOMERLEY LIMITED

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



第一上海
FIRST SHANGHAI GROUP

First Shanghai Capital Limited

A notice convening the SGM to be held at 11:00 a.m. on Thursday, 8th June, 2006 at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong is set out on pages 53 to 55 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of Cheung Tai Hong Holdings Limited, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding 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 adjournment thereof should 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 Notes”	the 2% convertible notes due 2008 in aggregate principal of HK\$100 million issued by the Company on 23rd February, 2005, which have been fully converted into Shares as at the Latest Practicable Date
“2005 August Notes”	the zero coupon convertible notes due 2010 in aggregate principal of HK\$1,000 million issued by the Company on 11th August, 2005, of which an aggregate principal amount of HK\$582,050,000 remained outstanding as at the Latest Practicable Date
“Announcement”	the joint announcement issued by the Company and Hanny dated 28th April, 2006 in relation to, among other things, the Note Subscription and the Placing
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	board of Directors
“Centar Investments”	Centar Investments (Asia) Ltd., a fund managed by Stark Investments
“Company”	Cheung Tai Hong Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“concert parties”	in relation to any person, such persons acting in concert with it for the purposes of the Takeovers Code
“connected persons”	has the meaning ascribed to it under the Listing Rules
“Conversion Shares”	Shares which would fall to be issued by the Company upon the exercise of the conversion rights attached to the Notes at the conversion price then in effect
“Directors”	directors of the Company
“Everight Acquisition”	the acquisition of the entire issued share capital of Everight Investment Limited and certain loans by the Group as disclosed in the announcement of the Company dated 7th February, 2006 and circular of the Company dated 26th April, 2006, completion of which has yet to take place

DEFINITIONS

“First Shanghai”	First Shanghai Capital Limited, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes
“Green Label Note”	the zero coupon convertible note due 2010 of principal amount of HK\$39,272,307 to be issued to Green Label Investments Limited as part consideration, completion of which has yet to take place pursuant to the Everright Acquisition
“Group”	the Company and its subsidiaries
“Hanny”	Hanny Holdings Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Hanny Group”	Hanny and its subsidiaries
“Hanny Note Subscription”	the subscription of the Hanny Notes by Hanny and/or its subsidiaries pursuant to the Hanny Note Subscription Agreement
“Hanny Note Subscription Agreement”	a conditional subscription agreement dated 27th April, 2006 entered into between Hanny and the Company in relation to the Hanny Note Subscription, subject to the terms and conditions contained therein
“Hanny Notes”	the Notes with principal amount of HK\$270 million to be subscribed by Hanny and/or its subsidiaries pursuant to the Hanny Note Subscription Agreement, which entitle the holders thereof to convert the principal amount outstanding into the Conversion Shares at the Initial Conversion Price
“Hanny Shareholders”	shareholders of Hanny
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising Mr. Wong Chi Keung, Alvin and Mr. Chui Sai Cheong, being two independent non-executive Directors

DEFINITIONS

“Independent Shareholders”	Shareholders excluding Hanny, the Stark Funds and their respective associates
“Independent Third Party(ies)”	party(ies) who, to the best of the knowledge, information and belief of the Directors, is/are third party(ies) independent of the Company and its connected persons
“Initial Conversion Price”	the initial conversion price of HK\$0.70 per Share (subject to adjustment) under the terms of the Notes
“ITC”	ITC Corporation Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange
“Kopola”	Kopola Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability, in which Mr. Ho Hau Chong, Norman, a non-executive Director, has 50% interests
“Last Full Trading Date”	12th April, 2006, being the last full trading day of the Shares on the Stock Exchange prior to the suspension of trading of the Shares on the Stock Exchange at 10:00 a.m. on 13th April, 2006 pending the issue of the Announcement
“Latest Practicable Date”	18th May, 2006, 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
“Macau”	the Macau Special Administrative Region of the PRC
“Magnum”	Magnum Company Limited, an unlisted company incorporated in Hong Kong with limited liability
“Magnum Note”	the zero coupon convertible note due 2010 of principal amount of HK\$20,727,693 to be issued to Magnum as part consideration pursuant to the Everright Acquisition, completion of which has yet to take place

DEFINITIONS

“Maturity Date”	the fifth anniversary of the date of issue of the Notes
“Noteholder(s)”	holder(s) of the Notes
“Note Subscriber(s)”	Hanny, the Stark Funds, ITC and the Other Note Subscribers
“Note Subscription”	subscription of the relevant Notes by the relevant Note Subscriber(s) pursuant to the terms of the respective Note Subscription Agreements
“Note Subscription Agreements”	a total of 17 conditional subscription agreements dated 27th April, 2006 entered into between the Company and each of Hanny, the Stark Funds, ITC and the Other Note Subscribers in relation to the Note Subscription, subject to the terms and conditions contained therein
“Note Subscription Completion”	completion of the Note Subscription Agreements
“Notes”	the 1% convertible notes in aggregate principal amount of HK\$1,000 million due 2011 to be issued by the Company pursuant to the Note Subscription Agreements
“Orient Town”	Orient Town Limited, a company incorporated in Hong Kong with limited liability
“Other Note Subscriber(s)”	11 subscribers (other than Hanny, the Stark Funds and ITC) of the Notes which are funds managed by global asset management firms
“Placees”	the placees to be procured by the Placing Agent under the Placing, all of which will be Independent Third Parties
“Placing”	the placing of up to 833,332,000 Placing Shares, on a best efforts basis, by the Placing Agent to the Placees at the Placing Price under the Placing Agreement
“Placing Agent”	CLSA Limited, a licensed corporation under the SFO to carry out types 1 and 4 regulated activities as defined under the SFO
“Placing Agreement”	the placing agreement dated 27th April, 2006 entered into between the Company and the Placing Agent in relation to the Placing

DEFINITIONS

“Placing Completion”	completion of the Placing Agreement
“Placing Price”	the placing price of HK\$0.60 per Placing Share under the Placing
“Placing Shares”	up to 833,332,000 new Shares to be issued under the Placing Agreement
“PRC”	the People’s Republic of China
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“SGM”	the special general meeting of the Company to be convened and held for the Shareholders to consider and, if thought fit, approve the Note Subscription and the Placing
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholders”	holders of the Shares
“Shepherd Investments”	Shepherd Investments International, Ltd., a fund managed by Stark Investments
“Stark Asia”	Stark Asia Master Fund, Ltd., a fund managed by Stark Investments
“Stark Funds”	Centar Investments, Shepherd Investments, Stark Asia and Stark International, all of which are funds managed by a common investment manager, Stark Investments
“Stark Investments”	Stark Investments (Hong Kong) Limited, a manager of the Asian investments of Centar Investments, Shepherd Investments, Stark Asia and Stark International, which is licensed by the SFC
“Stark Note Subscription Agreements”	four conditional subscription agreements dated 27th April, 2006 entered into between the Company and each of the Stark Funds in relation to the subscription of the Stark Notes by the Stark Funds

DEFINITIONS

“Stark Notes”	the Notes with aggregate principal amount of HK\$123 million to be subscribed by the Stark Funds pursuant to the Stark Note Subscription Agreements, which entitle the holders thereof to convert the principal amount outstanding into the Conversion Shares at the Initial Conversion Price
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Takeovers Code”	The Code on Takeovers and Mergers
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

LETTER FROM THE BOARD



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

Executive Directors:

Mr. Cheung Hon Kit (*Chairman*)

Mr. Chan Fut Yan (*Managing Director*)

Non-executive Directors:

Mr. Ho Hau Chong, Norman (*Deputy Chairman*)

Mr. Lo Lin Shing, Simon

Independent non-executive Directors:

Mr. Wong Chi Keung, Alvin

Mr. Kwok Ka Lap, Alva

Mr. Chui Sai Cheong

Registered office:

Clarendon House

Church Street

Hamilton HM 11

Bermuda

*Principal place of business
in Hong Kong:*

29/F., Paul Y. Centre

51 Hung To Road

Kwun Tong, Kowloon

Hong Kong

22nd May, 2006

*To the Shareholders and, for information only,
to the holders of the 2005 August Notes*

Dear Sir or Madam,

**ISSUE OF CONVERTIBLE NOTES,
PLACING OF SHARES
AND
CONNECTED TRANSACTIONS**

INTRODUCTION

On 28th April, 2006, the Company announced that on 27th April, 2006 it entered into the Note Subscription Agreements in relation to the subscription by 17 Note Subscribers of the 1% convertible notes of the Company in an aggregate principal amount of HK\$1,000 million. Hanny, the Stark Funds, ITC and the 11 Other Note Subscribers have conditionally agreed to subscribe in cash for the Notes with aggregate principal amount of HK\$270 million, HK\$123 million, HK\$30 million and HK\$577 million respectively. On 27th April, 2006, the Company also entered into the Placing Agreement with the Placing Agent in relation to the placing of up to 833,332,000 Placing Shares by the Placing Agent to the Placees, on a best efforts basis, at HK\$0.60 per Placing Share, to raise approximately HK\$500 million (before expenses).

* For identification purpose only

LETTER FROM THE BOARD

Hanny is a connected person of the Company pursuant to the Listing Rules by virtue of its approximately 20.71% interest in the total issued Shares as at the date of the Hanny Note Subscription Agreement, the issue of the Hanny Notes by the Company to Hanny and/or its subsidiaries under the Hanny Note Subscription Agreement therefore constitutes a connected transaction for the Company pursuant to the Listing Rules. The Stark Funds, all being managed by Stark Investments, are connected persons of the Company pursuant to the Listing Rules by virtue of their aggregate holding of approximately 17.26% interest in the total issued Shares as at the date of the Stark Note Subscription Agreements. The issue of the Stark Notes by the Company to the Stark Funds under the Stark Note Subscription Agreements therefore constitute connected transactions for the Company pursuant to the Listing Rules.

The Note Subscription Agreements are subject to the approval of the Independent Shareholders at the SGM on which voting will be taken by poll. Loyal Concept, the Stark Funds and their respective associates will abstain from voting on the relevant resolutions to be proposed at the SGM in relation to the Note Subscription Agreements.

The Independent Board Committee comprises two independent non-executive Directors, Mr. Wong Chi Keung, Alvin and Mr. Chui Sai Cheong, has been constituted to advise the Independent Shareholders, and First Shanghai has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as regards the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes. Mr. Kwok Ka Lap, Alva, an independent non-executive Director and an independent non-executive director of Hanny, will not be a member of the Independent Board Committee.

The purpose of this circular is to provide you with, among other things, (i) information on the Note Subscription Agreements, the Notes and the Placing Agreement; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders on the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes; (iv) the notice of the SGM; and (v) other information as required under the Listing Rules.

LETTER FROM THE BOARD

THE NOTE SUBSCRIPTION

On 27th April, 2006, the Company entered into 17 Note Subscription Agreements in relation to the subscription by the 17 Note Subscribers of the Notes with an aggregate principal amount of HK\$1,000 million. Save for the principal value of the Notes to be subscribed by each Note Subscriber and the identity of the Note Subscribers, the terms of each of the Note Subscription Agreements are in all material respects identical.

1. Note Subscription Agreements

Date: 27th April, 2006

Parties to the Note Subscription Agreements:

Issuer: the Company

- Subscribers:
- (i) Hanny, conditionally agreed to subscribe or procure the subscription at Note Subscription Completion for the Notes with principal amount of HK\$270 million by cash;
 - (ii) the Stark Funds comprising Centar Investments, Shepherd Investments, Stark Asia and Stark International, which are funds managed by Stark Investments, conditionally agreed to subscribe at Note Subscription Completion for the Notes with an aggregate principal amount of HK\$123 million by cash;
 - (iii) ITC, conditionally agreed to subscribe at Note Subscription Completion for the Notes with principal amount of HK\$30 million by cash; and
 - (iv) the 11 Other Note Subscribers, conditionally agreed to subscribe at Note Subscription Completion for the Notes with aggregate principal amount of HK\$577 million by cash.

The Note Subscribers:

The Hanny Group is principally engaged in trading of securities, property investment and trading and strategic investments. The Hanny Group has also made strategic investments in supply of household consumer products and other businesses. As at the Latest Practicable Date, Hanny (through Loyal Concept) was interested in 356,137,272 Shares, representing approximately 23.32% of the issued share capital of the Company. As at the Latest Practicable Date, Hanny (through Loyal Concept) also held HK\$330 million 2005 August Notes (which is convertible into 750 million Shares at the conversion price of HK\$0.44 per Share).

LETTER FROM THE BOARD

Centar Investments, Shepherd Investments, Stark Asia and Stark International are funds managed by a common investment manager, Stark Investments. According to the information provided by Stark Investments, Stark International and Shepherd Investments invest in securities worldwide while Stark Asia and Centar Investments focus on investments in Asia. The total assets of various funds under the management of Stark Investments are approximately US\$8 billion. As at the Latest Practicable Date, Stark Investments as fund manager held an aggregate of 207,602,727 Shares, representing approximately 13.60% of the issued share capital of the Company and in aggregate HK\$95 million 2005 August Notes (which is convertible into 215,909,089 Shares at the conversion price of HK\$0.44 per Share).

ITC is a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange. ITC is an investment holding company which directly and indirectly holds strategic investments in a number of listed companies. The principal activities of the ITC and its subsidiaries comprise investment holding, the provision of finance, the provision of management services, property investments, treasury investment, trading of building materials and machinery and the provision and operation of an internet trading platform for precious metals. ITC, through its subsidiary, held approximately 24.28% of the issued share capital of Hanny as at the Latest Practicable Date.

The 11 Other Note Subscribers include funds managed by global asset management firms. Seven of the 11 Other Note Subscribers are managed by three investment managers. Among these seven funds, two funds managed by the same investment manager have agreed to subscribe for HK\$87 million of the Notes, one of which held 47,951,817 Shares representing approximately 3.14% of the issued share capital of the Company and HK\$10 million 2005 August Notes (which is convertible into 22,727,272 Shares at the conversion price of HK\$0.44 per Share) as at the Latest Practicable Date. Among the seven funds, another two funds managed by the same investment manager have agreed to subscribe for HK\$23 million of the Notes, and remaining three funds managed by a third investment manager have agreed to subscribe for HK\$70 million of the Notes.

To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, save as disclosed above, the Note Subscribers (other than Hanny and the Stark Funds) and their respective ultimate beneficial owners are Independent Third Parties and none of the Note Subscribers held any Shares or other securities in the Company as at the Latest Practicable Date. Save as disclosed above and the interests of Green Label Investments Limited and Magnum in the Everight Acquisition, to the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the holders of the 2005 August Notes, the Green Label Note, the Magnum Note and the Note Subscribers are independent of and not connected with each other.

LETTER FROM THE BOARD

Conditions to the Note Subscription Agreements:

Completion of each of the Note Subscription Agreements is conditional upon:

- (i) the passing by the requisite majority required under the Listing Rules of Independent Shareholders in general meeting of all necessary resolutions to ratify the Company's entering into of the Note Subscription Agreements and performance of the transactions contemplated in the Note Subscription Agreements including the issue of the Notes and the Shares which fall to be issued and allotted on exercise of conversion rights attached to the Notes;
- (ii) the Listing Committee of the Stock Exchange having granted the listing of and permission to deal in the Conversion Shares;
- (iii) the passing by the requisite majority required under the Listing Rules of Hanny Shareholders in general meeting of a resolution to approve the terms of the Hanny Note Subscription Agreement (including the exercise of conversion rights attached to the Hanny Notes to the extent that the aggregate holding of Hanny Group of Shares immediately after such conversion shall be less than 30% of the then issued share capital of the Company);
- (iv) if required, an increase of authorised share capital of the Company to facilitate the issue of the Conversion Shares and the Bermuda Monetary Authority having approved the issue of shares of the Company permitted by such increased authorised capital, the issue of the Notes and the Conversion Shares and the transferability of the Notes and the Conversion Shares; and
- (v) the warranties made by the Company in the Note Subscription Agreements being true, complete and accurate and not misleading in all material respect when made and shall be true, complete and accurate, and not misleading in all material respect as at Note Subscription Completion as if made at Note Subscription Completion.

The Note Subscription Agreements are to be completed at the same time. Neither the Company nor the Note Subscribers shall be obliged to proceed to Note Subscription Completion if any Note Subscription Agreement cannot be completed at the same time. If any of the above conditions precedent have not been fulfilled or waived (in respect of condition (v) above) by the relevant Note Subscribers on or before the day which falls on the expiry of 120 calendar days immediately following the date of the Note Subscription Agreements (or such later date as may be agreed by the Note Subscribers and the Company in writing), the Note Subscription Agreements shall lapse immediately thereafter and be of no further effect and neither party to the Note Subscription Agreements shall have any claim against or liability or obligation to other party under the Note Subscription Agreements. The Note Subscribers have not indicated to the Company that they intend to waive the aforesaid condition.

LETTER FROM THE BOARD

The Note Subscription Completion is not conditional on the Placing Completion.

Completion:

The Note Subscription Completion shall take place on the third business day following the date of fulfilment or waiver (as the case may be) of the conditions precedent stated in the section headed “Conditions to the Note Subscription Agreements” above, or such other date as the Note Subscribers and the Company may agree.

A Noteholder will not be entitled to nominate directors to the Board by reason only of it being a Noteholder.

Termination:

Each of the Note Subscribers may by prior notice to the Company terminate the relevant Note Subscription Agreement at any time prior to the Note Subscription Completion if:

- (i) there develops, occurs or comes into effect:
 - (a) any event, development or change resulting in a material and adverse change in, or which would be expected to result in a material and adverse change in, political, economic, fiscal, financial, regulatory or stock market conditions in the PRC (including Hong Kong and Macau);
 - (b) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange due to exceptional financial circumstances or otherwise;
 - (c) any material and adverse change in conditions of local, national or international securities markets;
 - (d) any new law or regulation or change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong or any other jurisdiction relevant to the Group which shall materially and adversely affect the business or the financial or trading position of the Company;
 - (e) any suspension of dealings in the Shares for a period exceeding 10 business days other than due to the clearance of the Announcement;

LETTER FROM THE BOARD

- (f) a change or development involving a prospective change of taxation or exchange control (or the implementation of exchange control) in Hong Kong or elsewhere which would materially and adversely affect the business, financial or trading position of the Company; or
- (g) the instigation of any litigation or claim of material importance by any third party against any member of the Group which would materially and adversely affect the business, financial or trading position of the Company,

and which can reasonably be expected, in the opinion of the relevant Note Subscriber acting reasonably, to have or has had a material adverse effect upon the condition, (financial or otherwise) or earnings, business affairs or business prospects of the Company;

- (ii) there is any breach of any of the warranties made by the Company as set out in the relevant Note Subscription Agreement which (a) if it had occurred or arisen before the date of the relevant Note Subscription Agreement would have rendered any of such warranties untrue, inaccurate or misleading, or (b) in the opinion of the relevant Note Subscriber acting reasonably, materially and adversely affects the financial position or business of the Company; or
- (iii) there has been a breach of or failure to perform any of the Company's obligations in any material respect under the relevant Note Subscription Agreement.

2. Principal terms of the Notes

Aggregate principal amount: HK\$1,000 million

Initial Conversion Price: HK\$0.70 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues.

The Initial Conversion Price of HK\$0.70 per Share represents:

- a premium of approximately 7.69% over the closing price of HK\$0.65 per Share as quoted on the Stock Exchange on 13th April, 2006, on which date the trading in the Shares on the Stock Exchange was suspended at 10:00 a.m. pending the release of the Announcement;

LETTER FROM THE BOARD

- a premium of approximately 9.38% over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Full Trading Date;
- a premium of approximately 22.81% over the average closing price of approximately HK\$0.57 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Full Trading Date;
- a premium of approximately 18.64% over the closing price of HK\$0.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- a premium of approximately 29.63% over the adjusted unaudited net assets value of HK\$0.54 per Share based on (a) the consolidated net assets value of the Company as at 30th September, 2005 adjusted for the effect of conversions of approximately HK\$488.0 million in total of the principal amount of the 2005 February Notes and the 2005 August Notes subsequent to 30th September, 2005 and up to the Latest Practicable Date; and (b) the number of Shares in issue as at the Latest Practicable Date.

The Initial Conversion Price was determined after arm's length negotiations between the Note Subscribers and the Company with reference to the prevailing market price of the Shares prior to the signing of the Note Subscription Agreements.

Interest rate:	1.0% per annum
Maturity:	The fifth anniversary from the date of issue of the Notes
Redemption:	Unless previously converted or redeemed by the Company, the Company will redeem the Notes on the Maturity Date at the redemption amount which is 110% of the principal amount of the Notes outstanding.

LETTER FROM THE BOARD

In the event of a change of control of the Company (where person(s) other than Hanny and/or its concert parties acquire more than 50% equity interests of the Company or the consolidation or merger of substantially all of the assets of the Company with such person(s)) prior to the Maturity Date, the Noteholders may require the Company to redeem at the redemption amount which is 110% of the principal amount of the Notes then outstanding plus interest accrued.

In the event of the occurrence of events of default specified in the Notes instrument, the Noteholders may also require the Company to redeem the Notes at 100% of the principal amount of the Notes then outstanding plus interest accrued.

Transferability:

The Notes are freely transferable but may not be transferred to a connected person of the Company (unless the Noteholder is already a connected person and the transferee is its associates) without the prior written consent of the Company. The Company undertakes to the Stock Exchange that it will promptly notify the Stock Exchange upon becoming aware of any dealings in the Notes by any connected persons of the Company.

Conversion period:

Each of the Noteholders shall have the right to convert, on any business day commencing from the 7th day after the date of issue of the Notes up to and including the date which is 7 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 Notes into Shares at the then prevailing conversion price.

Conversion Shares:

Upon full conversion of the Notes at the Initial Conversion Price, an aggregate of 1,428,571,426 Conversion Shares will be issued by the Company, representing approximately 93.57% of the number of Shares in issue at the Latest Practicable Date and approximately 48.34% of the number of Shares in issue as at the Latest Practicable Date as enlarged by the issue of the Conversion Shares.

LETTER FROM THE BOARD

Voting: A Noteholder will not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of it being a Noteholder.

Listing: No application will be made for the listing of the 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 Notes.

Ranking: The Notes will rank pari passu with all other present and future unsecured and un-subordinated obligations of the Company.

The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Notes will rank pari passu in all respects with all other Shares in issue at the date on which the conversion rights attached to the Notes are exercised.

Based on the terms of the Notes, the expected yield to maturity of the Notes is approximately 2.9% per annum.

THE PLACING

The Placing Agreement:

Date: 27th April, 2006

Parties to the Placing Agreement:

Issuer: The Company

Placing Agent: CLSA Limited, an Independent Third Party.

The Placing Shares:

Up to 833,332,000 new Shares, representing (i) approximately 54.58% of the number of Shares in issue as at the Latest Practicable Date; and (ii) approximately 35.31% of the number of Shares in issue as at the Latest Practicable Date as enlarged by the Placing.

The Placing is to be made on a best efforts basis.

LETTER FROM THE BOARD

Placees:

Not less than six individual investors, corporate, institutional or other professional investors who are Independent Third Parties procured by the Placing Agent under the Placing Agreement.

Placing Price:

The Placing Price of HK\$0.60 per Placing Share represents:

- (i) a discount of approximately 7.69% to the closing price of HK\$0.65 per Share as quoted on the Stock Exchange on 13th April, 2006, on which date the trading in the Shares on the Stock Exchange was suspended at 10:00 a.m. pending the release of the Announcement;
- (ii) a discount of approximately 6.25% to the closing price of HK\$0.64 per Share as quoted on the Stock Exchange on the Last Full Trading Date;
- (iii) a premium of approximately 5.26% over the average of the closing prices of approximately HK\$0.57 per Share as quoted on the Stock Exchange for the last 10 trading days up to and including the Last Full Trading Date;
- (iv) a premium of approximately 1.69% over the closing price of HK\$0.59 per Share as quoted on the Stock Exchange on the Latest Practicable Date; and
- (v) a premium of approximately 11.11% over the unaudited net assets value of HK\$0.54 per Share based on (a) the consolidated net assets value of the Company as at 30th September, 2005 adjusted for the effect of conversions of approximately HK\$488.0 million in total of the principal amount of the 2005 February Notes and the 2005 August Notes subsequent to 30th September, 2005 and up to the Latest Practicable Date, and (b) the number of Shares in issue as at the Latest Practicable Date.

The Placing Price was determined after arm's length negotiations between the Placing Agent and the Company with reference to the prevailing market prices of the Shares. The aggregate amount of the Placing will be approximately HK\$500 million before expenses and approximately HK\$487.5 million (after expenses). The net Placing Price after expenses is approximately HK\$0.585 per Placing Share.

Listing:

Application will be made to the Stock Exchange for the listing of and permission to deal in the Placing Shares on the Stock Exchange.

Ranking:

The Placing Shares, when issued and fully paid, shall rank pari passu in all respects with the Shares in issue on the Placing Completion.

LETTER FROM THE BOARD

Conditions precedent to the Placing Agreement:

Completion is conditional on:

- (i) the passing by the requisite majority under the Listing Rules of Shareholders or the Independent Shareholders (if required) in general meeting of resolution to authorise the issue of the Placing Shares; and
- (ii) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal, in the Placing Shares.

None of the above conditions are capable of being waived. If the above conditions precedent are not fulfilled on or prior to the day which falls on the expiry of 120 calendar days immediately following the date of the Placing Agreement or such other date as may be agreed between the Placing Agent and the Company, the Placing Agreement shall terminate and neither of the parties to the Placing Agreement shall have any claim against others for costs or losses (save for any prior breaches of the Placing Agreement).

The Placing Completion is not conditional on the Note Subscription Completion.

Completion:

The Placing Completion shall take place on the second business day following the satisfaction of the conditions precedent to the Placing Agreement above or such other date as the Placing Agent and the Company may agree.

Commission:

The Placing Agent will not receive any commission in relation to the Placing.

Termination:

The Placing Agreement is subject to similar termination clauses as those of the Note Subscription Agreements as mentioned above.

REASONS FOR THE NOTE SUBSCRIPTION, THE PLACING AND USE OF PROCEEDS

The Group is principally engaged in property development and investment in Hong Kong, trading of motor cycles and spare parts, the sale and manufacturing of "Tung Fong Hung" branded Chinese pharmaceutical and health products, the production and distribution of western pharmaceutical products and securities investment.

As mentioned in the 2004-2005 annual report and the 2005-2006 interim report, the Group has been actively exploring business opportunities with primary focus on property development and investment opportunities in Hong Kong, Macau and the PRC. As disclosed in the announcements of the Company dated 7th February, 2006 and 3rd April,

LETTER FROM THE BOARD

2006 and the circular dated 26th April, 2006, the Company entered into a sale and purchase agreement in respect of (i) the Everight Acquisition which involves acquisition of two golf club operations and certain property interests in the PRC for a total consideration of HK\$140 million; and (ii) acquisition of certain property interests in Macau, pursuant to which the Company undertakes to advance a shareholder's loan of HK\$885 million to Orient Town, 40% equity interest of which is to be acquired by the Company. The aforesaid consideration and shareholder's loan will be partially funded by the net proceeds of HK\$989 million raised by the issue of the 2005 August Notes. Save for the aforesaid acquisitions, the Group is also in discussions with certain Independent Third Parties relating to possible acquisitions of certain other property interests in the PRC and Hong Kong. However, no contract or agreement has been entered into for any of these possible acquisitions. The Company remains open to other potential investments which fit the Group's expansion strategy. Given the recent strong equity market conditions, the Directors are of the view that it is an opportune time to raise further capital in the equity market. The issue of the Notes and the Placing Shares would strengthen the financial capability of the Group and raise capital for further possible acquisitions when such opportunities arise. The Directors consider the terms of the Note Subscription Agreements, the Notes and the Placing Agreement to be fair and reasonable and the Note Subscription and the Placing to be in the interests of the Company and the Shareholders as a whole.

In view of the prospering property markets of the PRC, Hong Kong and Macau, the net aggregate proceeds of approximately HK\$1,468 million raised from the Note Subscription and the Placing are expected to be used for the purpose of further expanding its property investment portfolio and financing its existing property development projects.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

Set out below is the shareholding structure of the Company (i) as at the Latest Practicable Date; (ii) immediately upon the Placing Completion and the Note Subscription Completion (assuming no conversion of any of the Magnum Note, the Green Label Note, the 2005 August Notes and the Notes); (iii) upon the Placing Completion and the Note Subscription Completion and full conversion of the Magnum Note and the Green Label Note only; (iv) upon the Placing Completion and the Note Subscription Completion and full conversion of the Magnum Note, the Green Label Note and the 2005 August Notes only; and (v) upon the Placing Completion and the Note Subscription Completion and full conversion of the Magnum Note, the Green Label Note, the 2005 August Notes and the Notes (assuming in each case, no Shares are issued or purchased after the Latest Practicable Date other than (as the case may be) the issue of the Placing Shares and the Shares which fall to be issued on conversion of the relevant convertible notes as specified and the relevant convertible notes are converted in full at the prevailing conversion price):

Shareholders	(i) As at the Latest Practicable Date		(ii) Immediately upon the Placing Completion and the Note Subscription Completion		(iii) Upon the Placing Completion and the Note Subscription Completion and full conversion of the Magnum Note and the Green Label Note		(iv) Upon the Placing Completion and the Note Subscription Completion and the full conversion of the Magnum Note, the Green Label Note and the 2005 August Notes		(v) Upon the Placing Completion and the Note Subscription Completion and the full conversion of the Magnum Note, the Green Label Note, the 2005 August Notes and the Notes	
	No. of Shares		No. of Shares		No. of Shares		No. of Shares		No. of Shares	
	%	%	%	%	%	%	%	%	%	%
Mr. Ho Hau Chong, Norman (Note 1)	102,272,726	6.70	102,272,726	4.33	102,272,726	4.09	215,909,089	5.65	215,909,089	4.11
Hanny (Note 2)	356,137,272	23.32	356,137,272	15.09	356,137,272	14.26	1,106,137,272	28.96	1,491,851,557	28.43
Stark Funds (Note 3)	207,602,727	13.60	207,602,727	8.80	207,602,727	8.32	423,511,816	11.09	599,226,101	11.42
Green Label Investments Limited (Note 4)	-	-	-	-	89,255,243	3.58	89,255,243	2.34	89,255,243	1.70
Magnum (Note 4)	-	-	-	-	47,108,393	1.89	47,108,393	1.23	47,108,393	0.90
ITC (Note 5)	-	-	-	-	-	-	-	-	42,857,142	0.82
The Other Note Subscribers (Note 6)	47,951,817	3.14	47,951,817	2.03	47,951,817	1.92	70,679,089	1.85	894,964,803	17.05
Holders of the 2005 August Notes	113,522,727	7.44	113,522,727	4.81	113,522,727	4.55	265,909,088	6.96	265,909,088	5.07
Placees of the Placing	-	-	833,332,000	35.31	833,332,000	33.38	833,332,000	21.82	833,332,000	15.88
Other public Shareholders	699,290,272	45.80	699,290,272	29.63	699,290,272	28.01	767,472,090	20.10	767,472,090	14.62
Total public Shareholders	860,764,816	56.38	1,694,096,816	71.78	1,694,096,816	67.86	1,937,392,267	50.73	2,804,535,123	53.44
Total	1,526,777,541	100.00	2,360,109,541	100.00	2,496,473,177	100.00	3,819,314,080	100.00	5,247,885,506	100.00

LETTER FROM THE BOARD

Notes:

1. Mr. Ho Hau Chong, Norman, a non-executive Director, was interested in 102,272,726 Shares as at Latest Practicable Date. Upon full conversion of HK\$50 million outstanding 2005 August Notes held by Kopola, a company in which he has 50% interest, at the existing conversion price of HK\$0.44 per Share, a further 113,636,363 Shares will be issued to Kopola.
2. Hanny (through Loyal Concept) held 356,137,272 Shares as at the Latest Practicable Date. Upon full conversion of the 2005 August Notes with principal outstanding amount of HK\$330 million held by Loyal Concept, it will hold an aggregate of 1,106,137,272 Shares. Pursuant to the Hanny Note Subscription Agreement, Hanny has conditionally agreed to subscribe for or procure the subscription of the Hanny Notes. Hanny intends to require the Hanny Notes to be issued to Loyal Concept, upon full conversion of which at the Initial Conversion Price, a further of 385,714,285 Shares will be issued to Loyal Concept.
3. The Stark Funds, being four subscribers of the 2005 August Notes, are funds related to each other to the extent that they are managed by a common investment manager. The Stark Funds held 207,602,727 Shares as at the Latest Practicable Date. Upon full conversion of the 2005 August Notes with outstanding principal amount of HK\$95 million held by the Stark Funds, they will hold in an aggregate of 423,511,816 Shares. Pursuant to the Stark Note Subscription Agreements, the Stark Funds have conditionally agreed to subscribe for HK\$123 million of the Notes, upon full conversion of which at the Initial Conversion Price, a further of 175,714,285 Shares will be issued to the Stark Funds.
4. Pursuant to the Everight Acquisition, the Green Label Note and the Magnum Note will be issued to Green Label Investments Limited and Magnum respectively as part of the consideration. Completion of the Everight Acquisition has yet to take place. Details of the Everight Acquisition are set out in announcement of the Company dated 7th February, 2006 and the circular of the Company dated 26th April, 2006.
5. As at the Latest Practicable Date, ITC was a substantial shareholder of Hanny but it did not have any shareholding interest in the Company.
6. As at the Latest Practicable Date, one Other Note Subscriber was interested in 47,951,817 Shares representing approximately 3.14% of the issued share capital of the Company. Upon full conversion of the 2005 August Notes with outstanding principal amount of HK\$10 million at the conversion price of HK\$0.44 per Share, it will be interested in an aggregate of 70,679,089 Shares. Pursuant to the relevant Note Subscription Agreement, such Other Note Subscriber together with another fund managed by the same investment manager have conditionally agreed to subscribe for the Notes of HK\$87 million, upon full conversion of which at the Initial Conversion Price, a further of 124,285,714 Shares will be issued to them.
7. The existing authorised share capital of the Company is 40,000,000,000 shares of HK\$0.01 each. Assuming no other changes to the share capital of the Company other than as a result of the conversion of the 2005 August Notes, the Green Label Note and the Magnum Note at the existing conversion price, the authorised share capital of the Company at the Latest Practicable Date was sufficient for the issue of new Shares under the Placing and upon conversion of the Notes.

Depending on the then shareholding structure of the Company, should each of the Note Subscribers and the Placees hold less than 10% of the issued Shares upon the Placing Completion and the Note Subscription Completion and/or upon full conversion of the Notes, each of them will be treated as a public Shareholder. Further announcement will be made by the Company in the event that any of the Placees becomes a substantial shareholder of the Company upon the Placing Completion. Depending on the extent to which the conversion rights of the Notes, the 2005 August Notes, the Green Label Note and the Magnum Note are to be exercised by any of their holders, these holders may individually become interested in 30% or more of the enlarged issued share capital of the Company upon conversion of their Notes. In the circumstances, these holders and their

LETTER FROM THE BOARD

concert parties will be obliged to make a mandatory offer to the Shareholders to acquire all the Shares, other than those already owned or agreed to be acquired by such subscriber(s) and their concert parties, in accordance with Rule 26 of the Takeovers Code unless a waiver thereto is obtained. Such subscriber(s) and their concert parties will be required to comply with the relevant requirements of the Takeovers Code in such 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 Magnum Note, the Green Label Note, the 2005 August Notes and the Notes and at any time during their terms.

The Stock Exchange has indicated that should the Note 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 THE SHAREHOLDERS

In view of the future dilution of existing Shareholders on the exercise of the conversion rights attaching to the Notes, the Company will keep the Shareholders informed of the level of dilution and details of conversion as follows:

- (i) the Company will make a monthly announcement (the “**Monthly Announcement**”) on the website of the Stock Exchange after the Note Subscription Completion. 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:
 - (a) whether there is any conversion of the Notes during the relevant month. If there is a conversion, details thereof, 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;
 - (b) the number of outstanding Notes after the conversion, if any;
 - (c) the total number of new Shares issued pursuant to other transactions during the relevant month, including new Shares issued pursuant to exercise of options under any share option scheme(s) of the Company (if any);
 - (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month; and

LETTER FROM THE BOARD

- (ii) in addition to the Monthly Announcement, if the cumulative amount of new Shares issued pursuant to the conversion of the 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 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 paragraph (i) above for the period commencing from the date of the last Monthly Announcement or any subsequent announcement in respect of the Notes (as the case may be) up to the date on which the total amount of the 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 Notes (as the case may be).

The above also applies in the event of conversion of the 2005 August Notes.

LETTER FROM THE BOARD

SUMMARY OF EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS

On 11th August, 2005, the Company raised approximately HK\$989 million, net of expenses, by issuing the 2005 August Notes. Set out below are the details of the intended and actual use of the proceeds of the 2005 August Notes:

Date of completion	Event	Net proceeds	Stated intended use of proceeds	Actual use of proceeds up to the Latest Practicable Date
11th August, 2005	Subscription and placing of the 2005 August Notes	Approximately HK\$989 million	Expanding the investment properties portfolio of the Company	<ul style="list-style-type: none"> - HK\$240 million was paid as a refundable earnest money and will be applied as shareholder's loan to Orient Town, details of which have been set out in the announcement of the Company dated 3rd April, 2006 in relation to the acquisition of interests in Orient Town; and - HK\$140 million was paid as a refundable earnest money with a view to facilitating possible acquisitions of ownership and interest in certain properties in the PRC.

Of the HK\$609 million remaining balance from the aforesaid fund raising exercise, HK\$75 million will be applied to settle the cash portion of the consideration of the Everight Acquisition. The remaining portion of the consideration of the Everight Acquisition will be satisfied by issue of the Green Label Note and the Magnum Note. As at the Latest Practicable Date, the Everight Acquisition has yet to be completed. The majority of the remaining cash proceeds of HK\$534 million will be applied as shareholder's loan to Orient Town pursuant to acquisition of interest in Orient Town.

In the event that any aforesaid possible acquisitions materialised in the future, the HK\$140 million earnest money will be used to finance such acquisitions to the extent required. Should any of the aforesaid possible acquisitions not materialised in the future, the relevant earnest money will be refunded to the Company.

LETTER FROM THE BOARD

SGM

Hanny is a connected person of the Company pursuant to the Listing Rules by virtue of its approximately 20.71% interest in the total issued Shares as at the date of the Hanny Note Subscription Agreement, the issue of the Hanny Notes by the Company to Hanny and/or its subsidiaries under the Hanny Note Subscription Agreement therefore constitutes a connected transaction for the Company pursuant to the Listing Rules.

The Stark Funds, all being managed by Stark Investments, are connected persons of the Company pursuant to the Listing Rules by virtue of their aggregate holding of approximately 17.26% interest in the total issued Shares as at the date of the Stark Note Subscription Agreements, the issue of the Stark Notes by the Company to the Stark Funds under the Stark Note Subscription Agreements therefore constitute connected transactions for the Company pursuant to the Listing Rules.

The Note Subscription Agreements are to be completed at the same time and none of the Note Subscriber is obliged to complete, if all of the other Note Subscribers do not complete the Note Subscription under the relevant Note Subscription Agreement. On this basis, the Note Subscription Agreements are subject to the approval of the Independent Shareholders at the SGM on which voting will be taken by poll. Loyal Concept, the Stark Funds and their respective associates will abstain from voting on the relevant resolutions in relation to the Note Subscription Agreements.

An Independent Board Committee has been constituted by the Company to advise the Independent Shareholders, and First Shanghai has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as regards the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes.

Set out on pages 53 to 55 of this circular is a notice convening the SGM which will be held at 11:00 a.m. on Thursday, 8th June, 2006 at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, at which ordinary resolutions will be proposed to approve (i) the Note Subscription by each of the Note Subscribers, the creation and issue of the Notes under the Note 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 Notes; and (ii) the Placing Agreement and the issue and allotment of the Placing Shares.

Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the branch share registrars and transfer office of the Company, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not later than 48 hours before the time for holding 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 adjournment thereof should 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 authorised 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 authorised 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 authorised 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

The Directors consider that the Note Subscription Agreements, the issue of the Notes and the Placing are in the interests of the Company and the Shareholders as a whole. The Directors therefore recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the SGM.

Your attention is drawn to the recommendation of the Independent Board Committee (as set out on pages 28 to 29 of this circular) and advice of First Shanghai (as set out on pages 30 and 44 of this circular) regarding the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes.

The Independent Board Committee, having taken into account the advice of First Shanghai, considers that the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes are fair and reasonable so far as the Company and the Shareholders are concerned and the subscription of the Hanny Notes and the Stark Notes by Hanny and the Stark Funds are in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the ordinary resolution no.1 to be proposed at the SGM to approve the Note Subscription Agreements, the issue of the Notes and the issue of new Shares pursuant to the exercise of conversion rights attached to the Notes and all matters contemplated under the Note Subscription Agreements.

LETTER FROM THE BOARD

FURTHER INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter of advice from First Shanghai, the general information set out in the appendix to this circular and the notice convening the SGM.

Yours faithfully,
For and on behalf of the Board
Cheung Tai Hong Holdings Limited
Mr. Cheung Hon Kit
Chairman



祥泰行集團有限公司*

CHEUNG TAI HONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 199)

22nd May, 2006

To the Independent Shareholders

Dear Sir or Madam,

**ISSUE OF CONVERTIBLE NOTES,
PLACING OF SHARES
AND
CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 22nd May, 2006 (the “Circular”), of which this letter forms part. Capitalised terms used herein have the same meanings as those defined in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes, and to advise you as to whether, in our opinion, such terms are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements and the issue of the Hanny Notes and the Stark Notes are in the interests of the Company and the Shareholders as a whole.

First Shanghai has been appointed as the Independent Financial Adviser to advise us and you regarding the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes. Details of its advice, together with the principal factors and reasons it has taken into consideration in giving its advice, are set out in its letter on pages 30 to 44 of the Circular. Your attention is also drawn to the letter from the Board and the additional information set out in the appendix to the Circular.

Having considered the terms of the Note Subscription Agreements and the Notes (which are identical for each Note Subscription Agreement and each Note respectively save for the principal value of the Notes to be subscribed by each Note Subscribers and the identity of the Note Subscribers) together with the independent advice of First Shanghai, we consider that the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the subscription

* For identification purpose only

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

of the Hanny Notes and the Stark Notes by Hanny and the Stark Funds are in the interests of the Company and the Shareholders as a whole. As all the Note Subscription Agreements (including the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements) must be completed at the same time, we recommend the Independent Shareholders to vote in favour of the ordinary resolution no.1 to be proposed at the SGM to approve the Note Subscription Agreements, the issue of the Notes and the issue of new Shares pursuant to the exercise of conversion rights attached to the Notes and all matters contemplated under the Note Subscription Agreements.

Yours faithfully,

Mr. Wong Chi Keung, Alvin Mr. Chui Sai Cheong

Independent Board Committee

LETTER OF ADVICE FROM FIRST SHANGHAI

The following is the full text of the letter of advice from First Shanghai dated 22nd May, 2006 to the Independent Board Committee and the Independent Shareholders setting out their opinion regarding the proposed issue of convertible notes to Hanny and Stark Funds for the purpose of inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

22nd May, 2006

*The Independent Board Committee and
the Independent Shareholders*

Cheung Tai Hong Holdings Limited
29th Floor
Paul Y. Centre
51 Hung To Road
Kwun Tong
Kowloon
Hong Kong

Dear Sirs,

CONNECTED TRANSACTIONS ISSUE OF CONVERTIBLE NOTES

INTRODUCTION

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the issue of the convertible notes to Hanny and Stark Funds and the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes, details of which are set out in a circular dated 22nd May, 2006 (the "Circular") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management. We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

LETTER OF ADVICE FROM FIRST SHANGHAI

We consider that we have been provided with sufficient information on which to form a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and its management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Group. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes, we have considered the following principal factors and reasons:

The Note Subscription Agreements

On 27th April, 2006, the Company entered into 17 Note Subscription Agreements in relation to the subscription by the 17 Note Subscribers of the Notes with an aggregate principal amount of HK\$1,000 million. Detailed terms of the Note Subscription Agreements are set out in the "Letter from the Board" of the Circular. Save for the principal value of the Notes to be subscribed by each Note Subscriber, the terms of each of the Note Subscription Agreements are identical. Brief details of the Note Subscribers are set out below:

- (i) Hanny conditionally agreed to subscribe or procure the subscription at Note Subscription Completion for the Notes with principal amount of HK\$270 million by cash;
- (ii) Stark Funds comprising Centar Investments, Shepherd Investments, Stark Asia and Stark International, which are funds managed by Stark Investments, conditionally agreed to subscribe at Note Subscription Completion for the Notes with aggregate principal amount of HK\$123 million by cash;
- (iii) ITC conditionally agreed to subscribe at Note Subscription Completion for the Notes with principal amount of HK\$30 million by cash; and
- (iv) the Other Note Subscribers conditionally agreed to subscribe at Note Subscription Completion for the Notes with aggregate principal amount of HK\$577 million by cash.

LETTER OF ADVICE FROM FIRST SHANGHAI

Hanny is a connected person of the Company pursuant to the Listing Rules by virtue of its approximately 20.71% interest in the total issued Shares as at the date of the Hanny Note Subscription Agreement, the issue of the Hanny Notes by the Company to Hanny and/or its subsidiaries under the Hanny Note Subscription Agreement therefore constitutes a connected transaction for the Company pursuant to the Listing Rules.

Stark Funds, all being managed by Stark Investments, are connected persons of the Company pursuant to the Listing Rules by virtue of their aggregate holding of 17.26% interest in the total issued Shares as at the date of the Stark Note Subscription Agreements, the issue of the Stark Notes by the Company to the Stark Funds under the Stark Note Subscription Agreements therefore constitute connected transactions for the Company pursuant to the Listing Rules.

The Note Subscription Agreements are subject to the approval of the Independent Shareholders at the SGM on which voting will be taken by poll. Loyal Concept, Stark Funds and their respective associates will abstain from voting on the relevant resolutions at the SGM in relation to the Note Subscription Agreements.

Background of the Group

The Group is principally engaged in property development and investment in Hong Kong, trading of motor cycles and spare parts, the sale and manufacturing of “Tung Fong Hung” branded Chinese pharmaceutical and health products, the production and distribution of western pharmaceutical products and securities investment.

LETTER OF ADVICE FROM FIRST SHANGHAI

A summary of the audited consolidated results of the Group for the two years ended 31st March, 2005 and the unaudited consolidated results of the Group for the six months ended 30th September, 2005 respectively, as extracted from the annual reports of the respective financial periods and the interim report of the Group for the six months ended 30th September, 2005 is as follows:

	Audited		Unaudited
	For the year ended 31st March, 2004 <i>HK\$'000</i>	For the year ended 31st March, 2005 <i>HK\$'000</i>	For the six months ended 30th September, 2005 <i>HK\$'000</i>
Turnover	63,514	379,396	426,380
Gross profit	2,079	119,918	55,729
(Loss)/profit before taxation	(37,791)	11,761	(16,941)
(Loss)/profit attributable to Shareholders/equity holders	(29,612)	9,938	(17,760)
Net asset value (including minority interests)	130,176	243,607	411,780

As extracted from the Company's annual report for the year ended 31st March, 2005, the Group's turnover for the year ended 31st March, 2005 was approximately HK\$379.4 million, representing a significant increase of approximately 497.3% as compared to that of approximately HK\$63.5 million for the previous financial year. In addition, the Group has achieved a turn-around and resulted in a profit of approximately HK\$9.9 million for the year ended 31st March, 2005 as compared with a loss of approximately HK\$29.6 million for the previous financial year. The substantial increase in turnover was mainly due to the newly acquired medicine business in May 2004, while the improved profit attributable to Shareholders was mainly due to the increase in sale of properties benefiting from the strong recovery in the property market in Hong Kong.

As extracted from the Company's interim report for the six months ended 30th September, 2005, the Group's turnover for that period was approximately HK\$426.4 million, representing an increase of approximately 143.1% as compared with that of approximately HK\$175.4 million in the corresponding period of the previous financial year. This substantial increase was mainly due to the expansion in the activity of securities investment, being part of the Group's strategy in short term treasury management, which contributed approximately HK\$282.4 million to the Group's turnover during the six months ended 30th September, 2005. During the same period, an impairment loss for goodwill of HK\$11.0 million was charged to the income statement. In addition, due to the adoption of new accounting standard,

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there was an increase in interest expense of approximately HK\$7.4 million on the liability component of convertible notes. As a result, the Group incurred a loss for the period of approximately HK\$17.8 million as compared with that of approximately HK\$1.0 million in the corresponding period of the previous financial year.

Reasons for the issue of the Notes

As mentioned in the “Letter from the Board” of the Circular, the Group has been actively exploring business opportunities with primary focus on property development and investment opportunities in Hong Kong, Macau and the PRC. As disclosed in the announcements of the Company dated 7th February, 2006 and 3rd April, 2006 and the circular dated 26th April, 2006, a wholly-owned subsidiary of the Company entered into a sale and purchase agreement in respect of the Everight Acquisition which involves (i) two golf club operations and certain property interests in the PRC for a total consideration of HK\$140 million; and (ii) a sale and purchase agreement in respect of acquisition of certain property interests in Macau, pursuant to which the Company undertakes to advance a shareholder’s loan of HK\$885 million to Orient Town, 40% equity interest of which is to be acquired by a wholly-owned subsidiary of the Company. The aforesaid consideration and shareholder’s loan will be partially funded by the net proceeds of HK\$989 million raised by the issue of the 2005 August Notes. Save for the aforesaid acquisitions, the Group is also under discussions with certain Independent Third Parties relating to possible acquisitions of certain other property interests in the PRC and Hong Kong. However, no contract or agreement has been entered into for any of these possible acquisitions. The Company remains open for other potential investments which fit the Group’s expansion strategy. Given the recent strong equity market conditions, the Directors are of the view that it is an opportune time to raise further capital in the equity market and the issue of the Notes and the Placing Shares would strengthen the financial capability of the Group and raise capital for further possible acquisitions when such opportunities arise. The Directors consider the terms of the Note Subscription Agreements and the Notes are fair and reasonable and the Note Subscription and the Placing are in the interests of the Company and its shareholders as a whole.

In view of the prospering property markets of the PRC, Hong Kong and Macau, the net aggregate proceeds of approximately HK\$1,468 million raised from the Note Subscription and the Placing are expected to be used by the Group for the purpose of further expanding its property investment portfolio and financing its existing property development projects.

The Directors consider that the Note Subscription will initially strengthen the working capital and financial position of the Company and may further enhance its capital base if the Notes would subsequently be converted into Conversion Shares which can ultimately facilitate the Group’s ongoing business development. Based on the discussion with the management of the Company, the Group’s current resources, where cash and bank balances amounted to approximately HK\$720.2 million as at 28th February, 2006, may not fully cater to the Group’s future development plan.

Alternative financing methods

In order to obtain funds for the Group to explore new investment opportunities as detailed in the paragraph headed “Reasons for the issue of the Notes” above, the Directors have considered various alternative means of financing.

Debt financing from bank borrowings

In considering the raising of funds through bank borrowings, the Directors have taken into account the following factors: (i) since the gearing ratio of the Group (i.e. calculated as total liability components of convertible notes and interest-bearing borrowings divided by equity attributable to the shareholders of the parent) as at 30th September, 2005 as extracted from the interim report for the six months ended 30th September, 2005 was approximately 231.4%, which demonstrates that the Group’s gearing ratio stood at an extremely high level and that the Group might not easily further borrow sufficient and significant funds from banks; (ii) since the interest rate of the Notes of 1% per annum and the expected yield to maturity of the Notes of 2.90% per annum are both below (a) the average bank borrowing cost of the Group of approximately 6.03% per annum for the year ended 31st March, 2006 and (b) the average yield of the 5-year Hong Kong Exchange Fund Notes which is approximately 4.65% per annum as at the Latest Practicable Date; (iii) the net proceeds of approximately HK\$980.5 million to be raised from the Note Subscription is relatively large as compared to the Group’s net asset value of approximately HK\$411.8 million as at 30th September, 2005 (representing approximately 138.1% thereof as at 30th September, 2005) and (iv) the prevailing prime interest rates in Hong Kong of approximately 8.00% to 8.25% per annum as quoted by banks in Hong Kong are much higher than that over the past few years, as a consequence, the Directors consider that the interest expenses which might have to be incurred from bank borrowings may affect the Group’s future cash flow and also result in unfavourable financial and debt positions. Accordingly, the Directors are of the view that bank borrowings are not appropriate for or beneficial to the Group.

Other equity financing

The Directors have considered other equity financing as follows:

1. In April 2006, the Company proceeded with the Placing by entering into the Placing Agreement with the Placing Agent in relation to the placing of up to 833,332,000 Placing Shares at HK\$0.60 per Placing Share on a best effort basis to raise approximately HK\$500 million (before expenses), which would result in an immediate dilution of the then shareholdings of the Shareholders. The Directors are of the view that it will not be in the interests of the Shareholders to further dilute their shareholdings in the short term if equity financing of the size comparable to the Notes is raised through a placing of new Shares; and

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2. The average daily trading volume of the Shares for the trading days during the past 12 months ended on the Last Full Trading Day is approximately 7,566,974 Shares per trading day, representing merely approximately 0.58% of the total number of Shares in issue and approximately 1.08% of the number of Shares in public hands as at the Last Full Trading Day. Due to the fact that the trading volume of the Shares is very thin, the Directors consider that if the Company raises the necessary funds by way of a rights issue or an open offer instead of the Notes, it would have to be set at a high offer ratio and the subscription price for which would have to be set at significant discounts to the prevailing market price of the Shares and the underlying net asset value so as to attract subscription by the Shareholders. In addition, the market risk associated with a rights issue or an open offer is normally higher as it would take a longer time to complete a rights issue or an open offer and any arm's length underwriting is normally subject to standard force majeure clause in favour of the underwriter. In light of the fact that there has already been an immediate dilution of shareholdings of the Shareholders through the Placing, a significant discount rate to the prevailing market price of the Shares has to be offered in order for a rights issue or an open offer to be fully underwritten by independent underwriter(s) and a longer period of completion time will be required by a rights issue or an open offer, we consider that a rights issue or an open offer is a less appropriate means of financing than the issue of the Notes.

Accordingly, as compared to debt financing from bank borrowings and other equity financing, we consider that the issue of the Notes, including the Hanny Notes and Stark Notes, under the current arrangement is an appropriate financing method under the current circumstances of the Company given (i) the possible dilution impact arising from the Placing on the shareholdings of the Shareholders in the short term and (ii) the thin trading volume of the Shares over the period.

Principal terms of the Hanny Notes and the Stark Notes under the Notes Subscription Agreements

Pursuant to the Notes Subscription Agreements, each of Hanny, Stark Funds (being a fund manager acting on behalf of four Note Subscribers which are investment funds managed by it), ITC and 11 Other Note Subscribers have conditionally agreed to subscribe for the Notes by cash to be issued by the Company with a principal amount of HK\$270 million, HK\$123 million, HK\$30 million and aggregate principal amount of HK\$577 million respectively.

As stated in the "Letter from the Board" of the Circular, each of the Noteholders shall have the right to convert, on any business day commencing from the 7th day after the date of issue of Notes up to and including the date which is 7 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 Notes into Shares at the then prevailing conversion price.

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(a) *Conversion price*

The Initial Conversion Price of HK\$0.70 per Share, subject to usual anti-dilution adjustments in certain events such as share consolidation, share subdivision, capitalisation issue, capital distribution, rights issue and other equity or equity derivatives issues by the Company, was determined after arm's length negotiations between the Note Subscribers and the Company with reference to the prevailing market price of the Shares. The Initial Conversion Price of HK\$0.70 per Share represents:

		Price/value per Share approximately HK\$	Premium approximately %
(i)	Closing price as quoted on the Stock Exchange as at 13th April, 2006, being the last trading day immediately before trading in the Shares was suspended pending the release of the Announcement	0.65	7.69
(ii)	Closing price per Share as quoted on the Stock Exchange on the Last Full Trading Date	0.64	9.38
(iii)	Average closing price per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including the Last Full Trading Date	0.65	7.69
(iv)	Average closing price per Share as quoted on the Stock Exchange for the last ten consecutive trading days up to and including the Last Full Trading Date	0.57	22.81
(v)	Closing price quoted on the Stock Exchange as at the Latest Practicable Date	0.59	18.64
(vi)	The audited consolidated net asset value of the Group per Share as at 31st March, 2005	0.67	4.48
(vii)	The adjusted consolidated net asset value per Share based on the unaudited consolidated net asset value of the Group per Share as at 30th September, 2005 as adjusted for the conversions of the 2005 February Notes and the 2005 August Notes subsequent to 30th September, 2005 and up to the Latest Practicable Date of approximately HK\$827.3 million and the number of Shares in issue as at the Latest Practicable Date	0.54	29.63

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(1) Share price performance

Set out below are the average monthly closing prices of the Shares for the period from 1st May, 2005 to the Latest Practicable Date:

	Month/ period end closing price	Average daily closing price
	<i>HK\$</i>	<i>HK\$</i>
2005		
May	0.410	0.429
June	0.375	0.405
July	0.335	0.329
August	0.390	0.388
September	0.395	0.404
October	0.410	0.399
November	0.395	0.403
December	0.355	0.378
2006		
January	0.380	0.386
February	0.440	0.425
March	0.500	0.482
April	0.650	0.629
May (up to the Latest Practicable Date)	0.590	0.630

Source: Bloomberg

As indicated in the above table, the closing prices of the Shares had generally been traded at a relatively stable range of HK\$0.335 to HK\$0.440 during the period before March 2006. The closing price of the Shares hit a high of HK\$0.700 on 10th April, 2006 and a low of HK\$0.280 on 7th July, 2005. We further noted that except for the closing price of the Shares of HK\$0.700 per Share that was recorded on 10th April, 2006, the daily closing prices of the Shares were at all the time traded below the Initial Conversion Price during the past 12 months from 1st May, 2006 to the Last Full Trading Day. As at the Latest Practicable Date, the Shares closed at a price of HK\$0.590 per Share, which is approximately 7.81% discount to that on the Last Full Trading Date.

Based on the above, the Initial Conversion Price represents premiums over the Share prices under various comparison prior to the date of the Announcement, the audited net asset value of the Group as at 31st March, 2005 and the adjusted unaudited consolidated net asset value per Share as at 30th September, 2005 (i.e. after adjustment for the conversions of the 2005 February Notes and the 2005 August Notes subsequent to 30th September,

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2005 and up to the Latest Practicable Date). We consider that the Initial Conversion Price is fair and reasonable so far as the Company and the Independent Shareholders are concerned.

(2) Comparables

In order to assess the fairness and reasonableness of the terms of the Notes, we consider that it would be more appropriate to look into the issue of convertible notes to independent third parties by companies listed on the Main Board of the Stock Exchange which were announced shortly before the date of the Note Subscription Agreements (i.e. 28th April, 2006). Therefore, we have compared the terms of the Notes with the last 10 issues of similar instruments by those companies listed on the Main Board of the Stock Exchange prior to 28th April, 2006 (the “Comparables”) as follows:

Date of announcement	Company	Principal HK\$ million	Interest %	Maturity Years	Redemption price at maturity %	Premium/ (discount) of conversion price over trading price	
						Last Trading Price %	5-day average %
27/4/2006	SEE Corporation Limited (491)	250.0	2.00	3	106.00	150.00	152.98
21/4/2006	Hengan International Group Company Limited (1044)	1,500.0	5.00	5	126.15	45.48	50.63
7/4/2006	Yue Da Holdings Limited (629)	75.0	3.50	3	100.00	(11.11)	(8.40)
6/4/2006	Heritage International Holdings Limited (412)	100.0	0.00	3	120.00	(10.71)	(2.34)
17/3/2006	Honesty Treasure International Holdings Limited (600)	93.8	2.50	5	100.00	(15.91)	(19.13)
16/2/2006	VST Holdings Limited (856)	66.0	0.00	2	115.87	16.13	18.03
7/2/2006	Cheung Tai Hong Holdings Limited (199)	60.0	0.00	4	109.00	12.82	13.11
25/1/2006	China Green (Holdings) Limited (904)	325.0	2.13	5	123.80	0.19	12.74
20/1/2006	Good Fellow Group Limited (910)	210.4	1.50	4	100.00	(21.57)	(20.74)
30/12/2005	Guo Xin Group Limited (1215)	120.0	5.00	4	100.00	334.78	303.23
	High	1,500.0	5.00	5	126.15	334.78	303.23
	Low	60.0	0.00	2	100.00	(21.57)	(20.74)
	Median	110.0	2.06	4	107.50	6.50	12.92
	Average	280.0	2.16	4	110.08	50.01	50.01
	The Company	1,000.0	1.00	5	110.00	9.38	7.69

Source: The Stock Exchange of Hong Kong Limited

As indicated above, (i) the interest rate of 1.00% of the Notes (including the Hanny Notes and Stark Notes) falls into that of the Comparables which ranges between 0.00% and 5.00%; (ii) the premium of approximately 9.38% represented by the Initial Conversion Price of HK\$0.70 per Share over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange immediately before the date of suspension

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of trading of Shares falls into that of the Comparables which ranges between discount of 21.57% and premium of 334.78% of the respective shares; and (iii) the redemption premium at maturity of the Notes of 110% falls into that of the Comparables which ranges between 100.00% and approximately 126.15%.

Even (i) the most extreme case of premium of 334.78% attributable to the issue of convertible notes by Guo Xin Group Limited and (ii) the issue of convertible notes by the Company itself (i.e. Cheung Tai Hong Holdings Limited) are taken out from the Comparables, the premium of approximately 9.38% represented by the Initial Conversion Price of HK\$0.70 per Share over the closing price of HK\$0.64 per Share as quoted on the Stock Exchange immediately before the date of suspension of trading of Shares still falls into that of other Comparables which ranges between discount of 21.57% and premium of 150.00% of the respective shares; while other comparisons within the Comparables remain unchanged.

(b) Interest rate

The Notes carry an interest rate of 1% per annum. This interest rate is (i) much lower than the average bank borrowing costs of the Group of approximately 6.03% per annum for the year ended 31st March, 2006; (ii) below the average yield of the 5-year Hong Kong Exchange Fund Notes which is 4.65% per annum as at the Latest Practicable Date; and (iii) within the range of the interest rate of the Comparables from 0% to 5% as shown above.

(c) Redemption

Unless previously converted or lapsed or redeemed by the Company, the Company will redeem the Notes (including the Hanny Notes and the Stark Notes) on the Maturity Date at the redemption amount which is 110% of the principal amount of the Notes outstanding. In the event of a change of control of the Company (where person(s) other than Hanny and/or its concert parties acquire more than 50% equity interests of the Company or the consolidation or merger of substantially all of the assets of the Company with such person(s)) prior to the Maturity Date, the Noteholders may require the Company to redeem at the redemption amount which is 110% of the principal amount of the Notes then outstanding plus interest accrued. In the event of the occurrence of events of default specified in the Notes instrument, the Noteholders may also require the Company to redeem at 100% of the principal amount of the Notes then outstanding plus interest accrued.

The redemption premium at maturity of the Notes of 110% falls within that of the Comparables which ranges between approximately 100.00% and 126.15%. We also noted that the Comparables with lower or no redemption premium have higher interest rates and/or have conversion price with lower premium or even discount to then prevailing market price.

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(d) Maturity, transferability, voting and ranking

The Hanny Notes, the Stark Notes as well as the other Notes have a maturity period of five years from the date of issue.

The Hanny Notes and the Stark Notes are freely transferable but may not be transferred to a connected person of the Company (unless the Noteholder is already a connected person and the transferee is its associates) without the prior written consent of the Company. The Company undertakes to the Stock Exchange that it will promptly notify the Stock Exchange upon becoming aware of any dealings in the Notes by any connected persons of the Company.

Hanny and Stark Funds (as subscribers to the Notes) will not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of it being a subscriber to the Notes.

The Notes (including the Hanny Notes and the Stark Notes) will rank *pari passu* with all other present and future unsecured and un-subordinated obligations of the Company. The Conversion Shares to be issued as a result of the exercise of the conversion rights attached to the Notes will rank *pari passu* in all respects with all other Shares in issue at the date on which the conversion rights attached to the Notes are exercised.

We consider that the terms of the Hanny Notes and the Stark Notes under the Note Subscription Agreements in relation to the maturity, transferability, voting and ranking which are normal (i.e. within the range of the maturity period from 2 to 5 years as shown above) for debt securities of similar kind and are in the same terms as the other Notes.

Having considered that: (i) the Initial Conversion Price of the Notes (including the Hanny Notes and the Stark Notes) under the Note Subscription Agreements (including the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements); (ii) the interest rate thereof; (iii) the terms of redemption thereof; and (iv) the terms thereof in relation to the maturity, transferability, voting and ranking are fair and reasonable, we are of the view that the terms of the Note Subscription Agreements (including the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements) and the Notes (including the Hanny Notes and the Stark Notes) are fair and reasonable and the entering into of the Note Subscription Agreements with the Subscribers as a whole benefits the Company and are in the interests of the Company and the Independent Shareholders as a whole.

Possible financial effects

In order to simplify our analysis and provide easy reference to the Independent Shareholders for the possible impact on the financial position of the Group that may arise in the issue of the Notes and its subsequent conversions into Conversion Shares, we have made assumptions that (i) the Placing could not be completed; (ii) no further conversions into Shares would take place by the holders of the Magnum Note, the Green Label Note and the 2005 August Notes; and (iii) the effective interest rate to account for the liability component and equity component of the Notes in accordance with the accounting standard in Hong Kong is assumed to be at 8.00% per annum, which is the prevailing prime interest rate quoted by The Hongkong and Shanghai Banking Corporation Limited as at the Latest Practicable Date. These assumptions are made for illustrative purpose only and do not purport to represent how the financial position of the Group will be on the Note Subscription Completion.

Working capital

The Group's capital base will be strengthened after the Note Subscription and its subsequent conversions into Conversion Shares, and its working capital position will also be improved as a result of the increase in its cash and bank balances from net proceeds of the Note Subscription. Based on the unaudited financial report of the Group for the six months ended 30th September, 2005, the Group had working capital of approximately HK\$1,237.1 million, comprising current assets of approximately HK\$1,363.8 million, including cash and bank balances of approximately HK\$672.5 million, and current liabilities of approximately HK\$126.6 million. Assuming the Placing could not be completed and other factors which may affect working capital position remain unchanged, the Group's working capital will increase by approximately HK\$980.5 million, representing a significant improvement. As at 28th February, 2006, the Group had cash and bank balances of approximately HK\$720.2 million, which are expected to increase by approximately HK\$980.5 million after completion of the Note Subscription, as a result of the estimated net proceeds of approximately HK\$980.5 million from the Note Subscription.

Net asset value

Upon the issue of the Notes and before any conversion of the Notes into Conversion Shares, the consolidated bank and cash balances, the consolidated total liabilities and the consolidated net asset value (including minority interests) of the Group will be increased by HK\$980.5 million, HK\$773.2 million and HK\$207.3 million respectively, and there will be a considerable increase on the net asset value of the Group. The consolidated net asset value per Share immediately after the issue of the Notes would be considerably increased by approximately HK\$0.14 (based on the unaudited consolidated net asset value of the Group per Share as at 30th September, 2005 as adjusted for the conversions of the 2005 February Notes and the 2005 August Notes subsequent to 30th September, 2005 and up to the Latest Practicable Date of approximately HK\$827.3 million and the number of Shares in issue as at the Latest Practicable Date), representing a considerable increase of approximately 25.9%.

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Assuming the Notes are converted in full at HK\$0.70 per Share, the consolidated net asset value (including minority interests) of the Group will be increased by approximately HK\$980.5 million, representing an increase of approximately 119.0%. The consolidated net asset value per Share after the full conversion of the Notes would be decreased by approximately HK\$0.07 (based on the consolidated net asset value of the Group including minority interest of approximately HK\$1,807.8 million and 2,955.3 million Shares in issue after full conversion of the Notes), representing a decrease of approximately 10.3%.

Gearing position

Due to the increase in the total borrowings balance of the Group and equity of the Group attributable to the Shareholders as a result of the issue of the Notes, the gearing ratio of the Group (calculated as total liability component of convertible notes and interest-bearing borrowings divided by the equity attributable to the Shareholders) when the Notes are issued and before any conversion of the Notes would be increased by approximately 61.8%. However, the gearing ratio of the Group will then be decreased by approximately 97.1% if the Notes are converted in full at HK\$0.70 per Share. However, having considered that: (i) as stated in the paragraph headed "Reasons for the issue of the Notes" above, the Directors are of the view that the prospering property market of the PRC, Hong Kong and Macau will provide the Group with immense opportunities for further expanding its property investment portfolio and financing its existing property development projects; and (ii) the funds raised from the issue of the Notes will enable the Group to invest in any possible investment opportunities when identified, we consider that the increase in the gearing ratio of the Group upon issuing the Notes as aforesaid is justifiable in so far as the Independent Shareholders are concerned.

Dilution in shareholding

Based on the shareholding structure of the Company as set out in the "Letter from the Board" of the Circular, as at the Latest Practicable Date, 699,290,272 Shares were held by other public Shareholders (i.e. excluding Mr. Ho Hau Chong, Norman, Hanny, Stark Funds, ITC, the Other Note Subscribers and the holders of 2005 August Notes), representing approximately 45.80% of the issued share capital of the Company. Upon completion of the Note Subscription and its subsequent conversions into Conversion Shares (assuming (i) the Placing could not be completed and (ii) no conversions into the Conversion Shares would take place by the holders of the Magnum Note, the Green Label Note and the 2005 August Notes), such corresponding shareholding will be diluted to approximately 23.66%. Accordingly, the dilution in shareholding appears to be substantial. However, the Shareholders should note that dilution effect on earnings per Share and shareholding is inevitable for placement of convertible notes and/or new shares, they would face a similar level of dilution if a placing as well as a rights issue or an open offer of the similar size of the Notes is proceeded instead of the issue of the Notes and the Shareholders do not subscribe for the shares in full (under the rights issue or the open offer). Nevertheless, as discussed in the section headed "Alternative financing methods" above, a placing, a

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rights issue or an open offer is not an appropriate alternative to the Company at the prevailing time. Having considered that (i) the use of proceeds from the issue of the Notes as described in the paragraph headed “Reasons for the issue of the Notes” above and (ii) the issue of the Notes is an appropriate means of financing compared with all other alternative means of financing as discussed in the paragraph headed “Alternative financing methods” above, we consider that the dilution effects on the shareholdings are inevitable for placement of convertible notes and/or new shares and therefore acceptable, though on its own is not favourable, so far as the Independent Shareholders are concerned after taking into account of the increase in net asset value per Share after completion of the Note Subscription and its subsequent full conversions into Shares.

RECOMMENDATION

Having considered (i) the above principal factors and reasons and (ii) the terms of the Note Subscription Agreements and the Notes (which are identical for each Note Subscription Agreement and each Note respectively save for the principal value of the Notes to be subscribed by each Note Subscriber), we consider that the entering into the Note Subscription Agreements (including the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements) and the terms of the Hanny Note Subscription Agreement, the Stark Note Subscription Agreements, the Hanny Notes and the Stark Notes are fair and reasonable so far as the Company and the Independent Shareholders are concerned and the subscription of the Hanny Notes and the Stark Notes by Hanny and the Stark Funds respectively are in the interests of the Company and the Shareholders as a whole. As all the Note Subscription Agreements (including the Hanny Note Subscription Agreement and the Stark Note Subscription Agreements) must be completed at the same time, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Note Subscription Agreements, the issue of the Notes and the issue of new Shares pursuant to the exercise of conversion rights attached to the Notes and all matters contemplated under the Note Subscription Agreements.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Helen Zee **Eric Lee**
Managing Director *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 Company. 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. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

(a) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV 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 (including interests and short positions which they were taken or deemed to have under such provisions 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 Issuers (the “**Model Code**”) adopted by the Company, to be notified to the Company and the Stock Exchange, were as follows:

Interest in the Shares and underlying Shares under equity derivatives (as defined in Part XV of the SFO)

Name of Director	Long position/ Short position	Capacity	Number of Shares held	Number of underlying Shares (under equity derivatives of the Company)	Aggregate interest	Approximate percentage of issued share capital of the Company
Mr. Ho Hau Chong, Norman ("Mr. Ho")	Long position	Interest of controlled corporation	102,272,726 (Note)	113,636,363 (Note)	215,909,089	14.14

Note: Each of Mr. Ho, a non-executive Director, and his brother, Mr. Ho Hau Hay, Hamilton, owns 50% interest in Kopola which beneficially owns 102,272,726 Shares and HK\$50 million 2005 August Notes.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV 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 adopted by the Company, to be notified to the Company and the Stock Exchange.

(b) Competing interest

As at the Latest Practicable Date, interests of the Directors and their respective associates in competing businesses were as follows:

Name of Director	Name of company	Nature of competing business	Nature of interest
Mr. Cheung Hon Kit ("Mr. Cheung")	Wing On Travel (Holdings) Limited and its subsidiaries	Property business in the PRC	As the managing director
	A non wholly-owned subsidiary of China Strategic Holdings Limited	Property business in the PRC	As a director
	China Development Limited	Property investment in Hong Kong	As a director and shareholder
	Artnos Limited	Property investment in Hong Kong	As a director and shareholder
	Co-Forward Development Ltd	Property investment in Hong Kong	As a director and shareholder
	Orient Centre Limited	Property investment in Hong Kong	As a shareholder
	Super Time Limited	Property investment in Hong Kong	As a director and shareholder
	Asia City Holdings Ltd	Property investment in Hong Kong	As a director and shareholder
	Supreme Best Ltd	Property investment in Hong Kong	As a shareholder
Mr. Ho	Miramar Hotel and Investment Company, Limited and its subsidiaries	Property investment, property development and sales	As a director
Mr. Lo Lin Shing, Simon ("Mr. Lo")	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 the chairman and an executive director

Mr. Cheung is the chairman of the Company who is principally responsible for the Group's strategic planning and management of the operations of the Board. His role is clearly separated from that of the managing Director, Mr. Chan Fut Yan, who is principally responsible for the Group's operation and business development. Mr. Ho and Mr. Lo, being non-executive Directors, do not participate in the daily management of the Group.

In addition, any significant business decision of the Group is to be determined by the Board. A Director who has interest in the subject matter being resolved will abstain from voting. In view of the above, the Board considers that the interests of Mr. Cheung, Mr. Ho and Mr. Lo in other companies will not prejudice their capacity as Directors nor compromise the interest of the Company and the Shareholders.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or their respective associates were 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.

(c) Other interests

The Board confirmed that none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

3. INTERESTS OF THE SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company based on the register maintained by the Company pursuant to Part XV of the SFO, the following persons (other than a Director or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the Shares and underlying Shares 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 other member of the Group or had any option in respect of such capital:

(i) *Interests in the Shares*

Name of Shareholder	Long position/ Short position	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company
Loyal Concept	Long position	Beneficial owner	356,137,272 (Note 1)	23.32
Hanny Magnetics (B.V.I.) Limited ("Hanny Magnetics")	Long position	Interest of controlled corporation	356,137,272 (Note 1)	23.32
Hanny	Long position	Interest of controlled corporation	356,137,272 (Note 1)	23.32
Shepherd Investments	Long position	Beneficial owner	96,854,727 (Note 2)	6.34
Stark Asia	Long position	Beneficial owner	61,363,636 (Note 2)	4.02
Stark International	Long position	Beneficial owner	37,366,091 (Note 2)	2.45
Stark Investments	Long position	Investment manager	207,602,727 (Note 2)	13.60
OZ Asia Master Fund, Ltd. ("OZ Asia")	Long position	Beneficial owner	22,306,818 (Note 3)	1.46

Name of Shareholder	Long position/ Short position	Capacity	Number of Shares held	Approximate percentage of issued share capital of the Company
OZ Master Fund, Ltd. ("OZ Master")	Long position	Beneficial owner	91,215,909 (Note 3)	5.97
OZ Management, L.L.C. ("OZ Management")	Long position	Investment manager	113,522,727 (Note 3)	7.44
Gandhara Master Fund Ltd. ("Gandhara")	Long position	Investment manager	145,000,000	9.50

(ii) *Interests in the underlying Shares under equity derivatives (as defined in Part XV of the SFO)*

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of issued share capital of the Company
Loyal Concept	Long position	Beneficial owner	1,135,714,285 (Note 1)	74.39
Hanny Magnetics	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	74.39
Hanny	Long position	Interest of controlled corporation	1,135,714,285 (Note 1)	74.39
Shepherd Investments	Long position	Beneficial owner	97,159,091 (Note 2)	6.36
Stark Asia	Long position	Beneficial owner	58,295,454 (Note 2)	3.82

Name of Shareholder	Long position/ Short position	Capacity	Number of underlying Shares (under equity derivatives of the Company)	Approximate percentage of issued share capital of the Company
Stark International	Long position	Beneficial owner	38,863,637 (Note 2)	2.55
Stark Investments	Long position	Investment manager	215,909,091 (Note 2)	14.14
OZ Asia	Long position	Beneficial owner	95,746,363 (Note 3)	6.27
OZ Master	Long position	Beneficial owner	122,875,000 (Note 3)	8.05
OZ Management	Long position	Investment manager	219,051,363 (Note 3)	14.35
PMA Capital Management Limited	Long position	Investment manager	100,000,000	6.55
Harmony Investment Fund Limited	Long position	Investment manager	114,285,714	7.49
Gandhara	Long position	Investment manager	357,142,857	23.39

Notes:

1. Hanny and Hanny Magnetics were taken to have an interest in 356,137,272 Shares and HK\$330 million 2005 August Notes held by Loyal Concept since Loyal Concept is a wholly-owned subsidiary of Hanny Magnetics which, in turn, is a wholly-owned subsidiary of Hanny.
2. Stark Investments was taken to have an interest in 207,602,727 Shares and HK\$95 million 2005 August Notes held by Centar Investments, Shepherd Investments, Stark Asia and Stark International.
3. OZ Management was taken to have an interest in 113,522,727 Shares and HK\$67,050,000 2005 August Notes held by OZ Asia and OZ Master.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors or chief executive of the Company, no other persons (not being a Director or chief executive of the Company) had any interest or short positions in the Shares or underlying Shares which are required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor were there any persons, 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 member of the Group or held any option in respect of such capital.

4. CLAIMS AND LITIGATIONS

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

5. EXPERT AND CONSENT

The following are the qualifications of the expert who has been named in this circular or has given opinion or advice which is contained in this circular:

Name	Qualifications
First Shanghai	licensed corporation under the SFO to conduct type 6 (advising on corporate finance) regulated activity as set out in the SFO

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

First Shanghai did not have any shareholding, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

First Shanghai did not have any direct or indirect interests in any assets which had been, since 31st March, 2005 (being the date to which the latest published audited accounts of the Company were made up), (i) acquired or disposed of by; or (ii) leased to; or (iii) proposed to be acquired or disposed of by; or (iv) proposed to be leased to, any member of the Group.

6. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which does not expire or is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong, from the date of this circular and up to and including 8th June, 2006 and at the SGM:

- the memorandum and bye-laws of the Company;
- the published audited consolidated financial statements of the Company for each of the two financial years ended 31st March, 2005;
- the interim report of the Company for the six months ended 30th September, 2005;
- the Note Subscription Agreements and the Placing Agreement;
- the letter of advice from First Shanghai as set out in this circular; and
- the letter of consent referred to under the section headed "Expert and consent" in this appendix.

8. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31st March, 2005, being the date to which the latest published audited financial statements of the Group were made up.

9. MISCELLANEOUS

- The qualified accountant of the Company is Cheung Chi Kit, *CPA, A.C.S., A.C.I.S.*.
- The company secretary of the Company is Yan Ha Hung, *Loucia, MBA, A.C.S., A.C.I.S.*.
- The registered office of the Company is at Clarendon House, Church Street, Hamilton HM 11, Bermuda.
- The Company's principal place of business in Hong Kong is situated at 29/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, Hong Kong.
- The branch share registrars and transfer office of the Company is Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- The English text of this circular prevails over the Chinese text.

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 (the “**Company**”) will be held at 11:00 a.m. on Thursday, 8th June, 2006 at Conference Room, 11/F., Paul Y. Centre, 51 Hung To Road, Kwun Tong, Kowloon, 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**

- (A) the seventeen conditional subscription agreements all dated 27th April, 2006 (“**Subscription Agreements**”) entered into between the Company as the issuer and seventeen subscribers including but not limited to Stark Asia Master Fund, Ltd., Stark International, Centar Investments (Asia) Ltd., Shepherd Investments International, Ltd. and Hanny Holdings Limited as the subscribers (collectively the “**Subscribers**”) relating to the subscription of 1% convertible notes (the “**Notes**”) due 2011 of aggregate principal amount of HK\$1,000,000,000 by the relevant Subscribers (copies of which Subscription Agreements having been produced to this meeting and marked “A” to “Q” and initialled by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder, including, without limitation, (i) the issue of the Notes and (ii) issue of new shares by the Company pursuant to the exercise of the conversion rights attached to the Notes be and are hereby approved, confirmed and ratified; and
- (B) the directors of the Company (the “**Directors**”) be and are hereby authorised to take all steps and to do all such acts and things, to sign and execute all such further documents as the Directors may in their absolute discretion consider necessary, desirable or expedient to implement and/or give effect to or in connection with the Subscription Agreements and all the transactions contemplated thereunder, including, with limitation, (i) the issue of the Notes and (ii) issue of new shares by the Company pursuant to the exercise of the conversion rights attached to the Notes.

* For identification purpose only

NOTICE OF SGM

2. "THAT

- (A) the conditional placing agreement dated 27th April, 2006 ("**Placing Agreement**") entered into between the Company as the issuer and CLSA Limited as placing agent relating to the placing of up to 833,332,000 new shares of the Company at HK\$0.60 each (a copy of which Placing Agreement having been produced to this meeting and marked "R" and initialled by the chairman of the meeting for the purpose of identification) and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified; and
- (B) the Directors be and are hereby authorised to take all steps and to do all such acts and things, to sign and execute all such further documents as the Directors may in their absolute discretion consider necessary, desirable or expedient to implement and/or give effect to or in connection with the Placing Agreement and all the transactions contemplated thereunder.

Yours faithfully,
By order of the Board
Cheung Tai Hong Holdings Limited
Yan Ha Hung, Loucia
Company Secretary

Hong Kong, 22nd May, 2006

Registered office:
Clarendon House
Church Street
Hamilton HM 11
Bermuda

Principal place of business in Hong Kong:
29/F, Paul Y Centre
51 Hung To Road
Kwun Tong, Kowloon
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/her 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 branch share registrars and transfer office, Secretaries Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, 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.

NOTICE OF SGM

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.