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If you are in any doubt as to any aspect of this circular or as to the action you should take, you should consult your stockbroker or other registered dealer in securities, a bank manager, solicitor, professional accountant or other professional advisor.

If you have sold all your shares in Lai Fung Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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## LAI FUNG HOLDINGS

Lai Fung Holdings Limited  
(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1125)

### *Executive Directors:*

Lim Por Yen (*Chairman*)  
Lam Kin Ming (*Deputy Chairman*)\*  
Lam Kin Hong, Matthew (*Chief Executive Officer*)  
Ho Wing Tim (*Deputy Chief Executive Officer*)<sup>o</sup>  
Lam Kin Ngok, Peter  
Lee Po On  
U Po Chu  
Yew Yat Ming

### *Principal Place of Business:*

11th Floor  
Lai Sun Commercial Centre  
680 Cheung Sha Wan Road  
Kowloon  
Hong Kong

### *Non-executive Directors:*

Lam Kin Ko, Stewart<sup>o</sup>  
Chiu Wai<sup>o</sup>  
Shiu Kai Wah<sup>o</sup>  
Siu Fai Wing<sup>o</sup>  
U Po Kwan<sup>o</sup>  
Wong Yee Sui, Andrew\*\*  
Lam Bing Kwan\*\*  
Mui Ying Chun, Robert\*\*

### *Registered Office:*

Ugland House  
South Church Street  
P.O. Box 309  
George Town  
Grand Cayman  
Cayman Islands  
British West Indies

\* Also Alternate Director to <sup>o</sup>

\*\* Independent non-executive Directors

30th November, 2004

To the Shareholders

Dear Sir or Madam,

## PROPOSALS RELATING TO GENERAL MANDATES TO ISSUE SHARES AND TO REPURCHASE SHARES AND AMENDMENTS TO THE ARTICLES OF ASSOCIATION

### INTRODUCTION

The Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) contain provisions to regulate the repurchase by companies with primary listings on the Stock Exchange of their own shares on the Stock Exchange (the “**Shares Buy Back Rules**”). Any such repurchase must be approved by Shareholders in advance by ordinary resolution.

The Securities and Futures Ordinance (the “SFO”) came into effect on 1st April, 2003 and the Stock Exchange has announced certain amendments to the Listing Rules which subject to certain transitional arrangements came into effect on 31st March, 2004. In order to comply with these new requirements and to bring the articles of association of the Company (the “Articles”) up to date and in line with the current practice in Hong Kong, it is proposed at the forthcoming Annual General Meeting to amend the Articles by the special resolution set out in item 5 in the notice convening the Annual General Meeting.

The purpose of this circular is to provide you with an explanatory statement as required by the Listing Rules and the information relating to the ordinary resolutions and the special resolution to be proposed at the forthcoming Annual General Meeting of the Company to be held on Wednesday, 29th December, 2004 (1) to grant general mandates to the directors of the Company (the (“Directors”)) to (i) exercise the powers of the Company to repurchase issued and fully-paid up shares of the Company; (ii) issue new shares; (iii) increase the number of shares which the Directors may issue under the general mandate to issue new shares by the number of shares repurchased; and (2) to amend the Articles.

## **GENERAL MANDATE TO REPURCHASE SHARES**

### **(i) The Shares Buy Back Rules**

The Shares Buy Back Rules are summarised as follows:

#### **(a) *Shareholders’ Approval***

All proposed repurchases of shares on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of a general mandate or by specific approval for particular transactions.

#### **(b) *Source of Funds***

Repurchases must be funded out of funds which are legally available for the purpose in accordance with the company’s constitutional documents and the laws of the jurisdiction in which the company is incorporated.

#### **(c) *Maximum Number of Shares***

The shares proposed to be repurchased by a company must be fully-paid up. A maximum of 10% of the issued share capital of the company as at the date of the resolution authorising the repurchase may be repurchased on the Stock Exchange.

### **(ii) The Repurchase Proposal**

Ordinary resolution No.4(A) to be proposed at the Annual General Meeting relates to the grant of a general mandate to the Directors to repurchase, on the Stock Exchange, issued and fully-paid up ordinary shares of HK\$0.10 each in the share capital of the Company (“Shares”) up to a maximum of 10% of the existing issued share capital of the Company as at the date of passing the said resolution (the “Repurchase Proposal”).

### **(iii) Reasons for Repurchases**

Although the Directors have no present intention of repurchasing any Shares, they believe that the flexibility afforded by the Repurchase Proposal would be beneficial to the Company and its Shareholders. Trading conditions on the Stock Exchange have sometimes been volatile in recent years. At any time in the future when the Shares are trading at a discount to their underlying value,

the ability of the Company to repurchase Shares will be beneficial to those Shareholders who retain their investment in the Company since their percentage interest in the assets of the Company would increase in proportion to the number of Shares repurchased by the Company. Share repurchase will only be made when the Directors believe that such repurchase will benefit the Company and its Shareholders.

**(iv) Share Capital**

As at 24th November, 2004, being the latest practicable date prior to the printing of this circular (the “**Latest Practicable Date**”), the issued and fully-paid up share capital of the Company comprised 5,872,956,478 Shares.

Subject to the passing of the ordinary resolution No.4(A), the Company would be allowed under the Repurchase Proposal to repurchase Shares up to a maximum of 587,295,647 Shares on the basis that no further Shares are issued or repurchased prior to the date of the forthcoming Annual General Meeting.

**(v) Funding of Repurchases**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association and the laws of the Cayman Islands.

The Directors propose that such repurchases of Shares would be appropriately financed by the Company’s internal resources and/or available banking facilities. There might be material adverse impact on the working capital or gearing position of the Company (as compared with the position disclosed in the audited accounts contained in the Annual Report for the year ended 31st July, 2004) in the event that the Repurchase Proposal was to be carried out in full at any time during the proposed repurchase period. However, the Directors do not propose to exercise the Repurchase Proposal to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Company.

**(vi) Market Prices**

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

	<b>SHARES</b>	
	<b>Highest HK\$</b>	<b>Lowest HK\$</b>
<b>2003</b>		
November	0.211	0.174
December	0.190	0.162
<b>2004</b>		
January	0.332	0.167
February	0.384	0.292
March	0.328	0.264
April	0.300	0.181
May	0.218	0.154
June	0.172	0.132
July	0.187	0.140
August	0.185	0.153
September	0.218	0.175
October	0.203	0.184
November (up to 18th November, 2004)	0.270	0.183

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases under the Repurchase Proposal in accordance with the Listing Rules of the Stock Exchange and the laws of the Cayman Islands. If a shareholder's proportionate interest in the voting rights of the Company increases as a result of the Directors exercising the power to repurchase Shares pursuant to the Repurchase Proposal, such increase will be treated as an acquisition of voting rights for the purposes of Rule 32 of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a shareholder or group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. As at the Latest Practicable Date, Mr. Lim Por Yen ("Mr. Lim") personally owns 115,156,000 Shares, Lai Sun Garment (International) Limited ("**LSG**") and its wholly-owned subsidiary, Silver Glory Securities Limited ("**SGS**"), were interested respectively in 1,819,206,362 Shares and 831,481,675 Shares which represent approximately 1.96% 30.98% and 14.16% respectively of the existing issued share capital of the Company. Assuming the shareholdings of Mr. Lim, LSG and SGS in the Company remain unchanged, full exercise by the Company of the general mandate to repurchase the Shares as mentioned herein will increase the interest of Mr. Lim, LSG and SGS in the issued share capital of the Company to 2.18% 34.42% and 15.73% respectively, making a total of 52.33%. The number of Shares beneficially owned by the public will be reduced to 47.67%. In the opinion of the Directors, such increase may give rise to an obligation to make a mandatory offer under Rules 26 and 32 of the Takeovers Code. The Directors have no present intention to exercise the power to repurchase shares pursuant to the Repurchase Proposal to such an extent as to result in takeover obligations.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) presently intend to sell any Shares to the Company under the Repurchase Proposal in the event that the Repurchase Proposal is approved by the Shareholders.

The Company has not been notified by any connected persons (as defined in the Listing Rules) that they have any present intention to sell any Shares to the Company, or that they have undertaken not to sell any Shares held by them to the Company in the event that the Repurchase Proposal is approved by the Shareholders.

#### **(vii) Shares Purchases Made by the Company**

No purchase of the Shares has been made by the Company during the six months prior to the Latest Practicable Date (whether on the Stock Exchange or otherwise).

#### **GENERAL MANDATE TO ISSUE SHARES**

Ordinary resolution No. 4(B) to be proposed at the Annual General Meeting relates to the granting of a general mandate to the Directors to issue new Shares up to a maximum of 20% of the existing issued share capital of the Company as at the date of passing the said resolution.

Ordinary resolution No. 4(C) relates to the extension of the general mandate to be granted to the Directors to issue new Shares during the Relevant Period (as defined in the ordinary resolution No. 4(A) of the Notice of Annual General Meeting of the Company contained in the Annual Report for 2003–2004) by adding to it the number of Shares repurchased by the Company under the Repurchase Proposal, if any.

## AMENDMENTS TO THE ARTICLES

As mentioned earlier, it is necessary for the Company to amend its existing Articles to satisfy the new requirements under the SFO and the amended Listing Rules. A brief description of the proposed amendments to the Articles is set out as follows:

- |                       |  |
|-----------------------|--|
| Article 2             | To add the definition of “associate” as provided in the amended Listing Rules.<br><br>To extend the construction of expressions referring to “writing” or “printing” in the Articles to include representations made in the form of electronic display.<br><br>To add the construction regarding references to documents being executed in the Articles and references to notice or document.                                      |
| Articles 80, 81 & 83  | To reflect the new requirement under the amended Listing Rules for taking a poll at general meetings to approve certain transactions.  |
| Articles 84A & 85     | To reflect the restriction on voting by those shareholders whom the Company has knowledge is restricted from voting, as required by the provisions of Appendix 3 to the amended Listing Rules.   |
| Article 107           | To be consistent with the provisions of Appendix 3 to the amended Listing Rules so that subject to certain exceptions, a director shall abstain from voting at the board meeting on any contract or arrangement or proposal in which he or any of his associates has a material interest nor shall he be counted towards the quorum of the relevant board meeting.   |
| Article 120           | To be consistent with the provisions of Appendix 3 to the amended Listing Rules which stipulates the minimum seven-day period for lodgment by a shareholder of the notice to nominate a person to be elected as a director and the nomination shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting. |
| Article 158A          | To expand Directors’ power to destroy certain documents to the extent permitted by applicable laws.  |
| Article 163(c) & (d)  | To allow the Company to distribute summary financial reports in place of a full annual report in light of the Listing Rules and to permit the Company to send summary financial reports to shareholders using electronic means.  |
| Articles 167(a) & 172 | To permit the Company to send notice or document or otherwise make available corporate communications to shareholders in person, by post, telex or facsimile transmission, electronic communication or press advertisement.  |
| Article 169           | To add provision for deemed services on notice or other document delivered by post, electronic communication or press advertisement and to add provision to allow such notice and document to be given to shareholders in either the English or Chinese language.  |

- Article 173 To add provision allowing signature to any notice or document by the Company by way of electronic signature.
- Article 179 To indemnify the officers of the Company against liabilities incurred in the execution of the duties of his office and to allow the Company to purchase insurance for its officers against the liabilities incurred by them to the extent permitted by the Companies Law of the Cayman Islands.

## **RIGHT TO DEMAND A POLL**

Pursuant to Article 80 of the existing Articles, a resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the results of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (i) by the chairman of the meeting; or
- (ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or
- (iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or
- (iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which the aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the Chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

## **PROXY ARRANGEMENT**

A form of proxy for use at the Annual General Meeting is enclosed with the Annual Report for the year ended 31st July, 2004. To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy thereof, must be lodged with the Company's Registrars in Hong Kong, Tengis Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Annual General Meeting or at any adjournment thereof.

## **RECOMMENDATION**

The Directors believe that the Repurchase Proposal and the granting of general mandate to issue new Shares and the amendments to the Articles as mentioned above are in the best interests of the Company and the Shareholders. Accordingly, the Directors recommend that all Shareholders vote in favour of the resolutions to be proposed at the Annual General Meeting.

Yours faithfully,  
For and on behalf of  
**Lai Fung Holdings Limited**  
**Lam Kin Ming**  
*Deputy Chairman*