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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountants or other professional advisers.

If you have sold all your shares in Lai Fung Holdings Limited, you should at once hand this circular together with 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.



LAI FUNG HOLDINGS

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

**TERMINATION OF UNDERTAKING:
APPOINTMENT OF MR. LIM POR YEN
AS A DIRECTOR OF THE COMPANY**

**Independent financial adviser to the
Independent Board Committee of Lai Fung Holdings Limited**



AMS Corporate Finance Limited

A letter from the Board is set out on pages 3 to 10 of this circular.

A letter from the Independent Board Committee, containing its recommendation to the Independent Shareholders is set out on page 11 of this circular.

A letter from AMS Corporate Finance Limited, an independent financial adviser, containing its advice to the Independent Board Committee is set out on pages 12 to 16 of this circular.

A notice convening an extraordinary general meeting of Lai Fung Holdings Limited to be held at 9:30 a.m. on Wednesday, 4th September, 2002 at The Chater Room III, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong is set out on pages 17 to 18 of this circular. Whether or not you intend to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting in person at the meeting or any adjourned meeting should you so desire.

15th August, 2002

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DEFINITIONS

In this circular, unless the context otherwise requires, the following words and phrases have the same meanings assigned:

- “AMS” : AMS Corporate Finance Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
- “Appointment” : the appointment of Mr. Lim as a director of the Company
- “associates” : has the meaning ascribed to it under the Listing Rules
- “Board” : the board of directors of the Company
- “Company” : Lai Fung Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
- “controlling shareholder(s)” : has the meaning ascribed to it under the Listing Rules
- “EGM” : the extraordinary general meeting of the Company to be held at The Chater Room III, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong at 9:30 a.m. on Wednesday, 4th September, 2002 to consider and, if thought fit, to approve the termination of the Undertaking and the Appointment
- “Group” : the Company and its subsidiaries and associated companies or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries and associated companies, those subsidiaries and associated companies
- “Hong Kong” : the Hong Kong Special Administrative Region of the People’s Republic of China
- “Independent Board Committee” : the independent committee of the Board comprising Mr. Wong Yee Sui, Andrew and Mr. Lam Bing Kwan, the two independent non-executive directors of the Company, formed for the purpose of advising the Independent Shareholders on the termination of the Undertaking and the Appointment
- “Independent Shareholders” : the Shareholders other than Mr. Lim and his associates
- “Infrastructure Projects” : infrastructure projects involving the development, ownership, operation and/or management of infrastructure operations/business of all kinds including container terminals, cargo handling and storage facilities, airports, power stations, toll roads, expressways, bridges, tunnels and water treatment plants
- “Latest Practicable Date” : 7th August, 2002, being the latest practicable date prior to the printing of this circular for ascertaining certain information in this circular

DEFINITIONS

- “Lim Family” : Mr. Lim, Mr. Lam Kin Ngok, Peter, Mr. Lam Kin Ming and their respective associates
- “Listing” : the listing of the shares of the Company on the Stock Exchange on 28th November, 1997 when it was spun-off from LSD
- “Listing Rules” : the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
- “LSD” : Lai Sun Development Company Limited, a company incorporated in Hong Kong with limited liability and whose ordinary shares are listed on the Stock Exchange
- “LSD Group” : LSD together with its subsidiaries and associated companies (other than members of the Group)
- “LSG” : Lai Sun Garment (International) Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Stock Exchange
- “LSG Group” : LSG together with its subsidiaries and associated companies other than members of the LSD Group and the Group
- “Messrs. Lim” : Mr. Lim Por Yen, Mr. Lam Kin Ngok, Peter and Mr. Lam Kin Ming
- “Mr. Lim” : Mr. Lim Por Yen
- “Non-compete Agreement” : the non-compete agreement between LSG, Messrs. Lim and the Company dated 12th November, 1997
- “PRC” : the People’s Republic of China (for the purpose of this circular excluding Hong Kong)
- “Shareholder(s)” : the registered holder(s) of share(s) of HK\$0.10 each in the capital of the Company
- “Spin-off Agreement” : the spin-off agreement dated 12th November, 1997 entered into between LSD and the Company
- “Stock Exchange” : The Stock Exchange of Hong Kong Limited
- “Undertaking” : the undertaking given by Mr. Lim for the Listing that during the period in which Mr. Lim continues to retain any interest in any properties in Shanghai and/or Guangzhou, he will not be appointed as a director of the Company

LETTER FROM THE BOARD



LAI FUNG HOLDINGS

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

Executive Directors:

Lam Kin Ngok, Peter (*Chairman*)
Lam Kin Ming* (*Deputy Chairman*)
Ho Wing Tim^o (*Chief Executive Officer*)
Lam Kin Hong, Matthew
(*Deputy Chief Executive Officer*)
Yew Yat Ming

Non-Executive Directors:

Lam Kin Ko, Stewart^o
Chiu Wai^o
Shiu Kai Wah^o
Siu Fai Wing^o
Yu Po Kwan^o
Chan Lap Wai

Independent non-executive Directors:

Wong Yee Sui, Andrew
Lam Bing Kwan

* also alternate director to ^o

Registered Office:

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

Head Office and Principal

Place of Business in Hong Kong:
11th Floor,
Lai Sun Commercial Centre,
680 Cheung Sha Wan Road,
Kowloon,
Hong Kong

15th August, 2002

To the Shareholders

Dear Sir or Madam,

TERMINATION OF UNDERTAKING: APPOINTMENT OF MR. LIM POR YEN AS A DIRECTOR OF THE COMPANY

1. INTRODUCTION

On 25th July, 2002, the Board announced that it had proposed to terminate the Undertaking and appoint Mr. Lim as a director of the Company. The termination of the Undertaking and the Appointment will take effect upon the same is approved by the Independent Shareholders at the EGM.

The purpose of this circular is to provide you with information in relation to the termination of the Undertaking and the Appointment.

LETTER FROM THE BOARD

2. BACKGROUND

In November 1997, the Company was spun-off from LSD and the shares of the Company were listed on the Stock Exchange. Immediately before the Listing, the Company was a wholly-owned subsidiary of LSD. LSG, which was ultimately controlled by the Lim Family, was the then controlling shareholder of LSD. The Lim Family was deemed to be a controlling shareholder of the Company at that time.

Before the Listing, Mr. Lim had already had interest in the following six property development projects in the PRC:

- (1) Hong Kong Plaza in Xiamen (*Note 1*);
- (2) Yu Fa Garden in Shanghai (*Note 2*);
- (3) Sujia Alley in Zhabei, Shanghai (*Note 3*);
- (4) Baining Baba Plaza in Shanghai (*Note 4*);
- (5) Regal Centre in Guangzhou (*Note 5*); and
- (6) Haizhu Plaza in Guangzhou (*Note 6*).

Notes:

1. Mr. Lim had a 100% interest in the company through which 100% of the interest in this project was held.
2. Mr. Lim had an approximately 9.9% attributable interest in this project.
3. LSG had a 95% interest in this project. Immediately before the Listing, Mr. Lim and his associates had an approximately 46.73% interest in LSG.
4. Mr. Lim had a 25% interest in the company which had a 25% interest in this project. LSG also had a 70% interest in another company which had a 70% interest in this project.
5. Mr. Lim had a 100% interest in this project.
6. Mr. Lim had a 100% interest in this project.

At the time of the Listing, the then Listing Rule 8.10 provided that “*where a new applicant has a controlling shareholder who or which has an interest in a business apart from the new applicant’s business and which business competes or is likely to compete, either directly or indirectly, with the new applicant’s business to the extent that there could be a conflict between the controlling shareholder’s interests and those of the general body of shareholders of the new applicant, the (Stock) Exchange may regard the new applicant as unsuitable for listing*”.

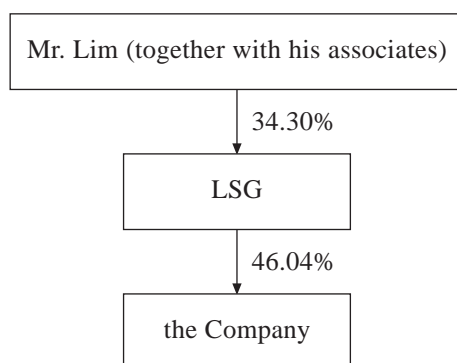
As the Group would be primarily engaged in property development and investment in Guangzhou and Shanghai after the Listing, with a view to alleviating the concern of the Stock Exchange of potential conflict between Mr. Lim’s interest in the property development projects in the PRC and the Group’s business after the Listing under the then Listing Rule 8.10, the Non-compete Agreement and the Spin-off Agreement were entered into, particulars of which are described in section 4 headed “Non-competition covenants under the Non-compete Agreement and the Spin-off Agreement” below. In addition, the Undertaking was included in the Company’s prospectus dated 18th November, 1997 which provides that during the period in which Mr. Lim continues to retain any interest in any properties in Shanghai and/or Guangzhou, Mr. Lim will not be

LETTER FROM THE BOARD

appointed as a director of the Company. The Undertaking was given voluntarily by Mr. Lim in addition to, and in its entirety separate from, the non-competition covenants under the Non-compete Agreement and the Spin-off Agreement as mentioned in section 4 headed “Non-competition covenants under the Non-compete Agreement and the Spin-off Agreement” below. The Undertaking was not a requirement under the then Listing Rules.

3. CURRENT SITUATION

At the Latest Practicable Date, LSG and its wholly owned subsidiary, Silver Glory Securities Ltd, are in aggregate beneficially interested in approximately 46.04% of the issued share capital of the Company. Mr. Lim (together with his associates) holds an interest of approximately 34.30% in the issued share capital of LSG. Mr. Lim is deemed to be interested in 46.04% of the issued share capital of the Company. The chart below illustrates the relationship between Mr. Lim (together with his associates), LSG and the Company as at the Latest Practicable Date.



The six property projects in which Mr. Lim had interest at the time of the Listing have been reduced. Particulars of the current situation are as follows:

- (1) Hong Kong Plaza in Xiamen : Mr. Lim still has a 100% interest in the company through which 100% of the interest in this project is held.
- (2) Yu Fa Garden in Shanghai : Mr. Lim still has an approximately 9.9% attributable interest in this project.
- (3) Sujia Alley in Zhabei, Shanghai : LSG still has a 95% interest in this project. As mentioned above, Mr. Lim (together his associates) has an approximately 34.30% interest in LSG.
- (4) Baining Baba Plaza in Shanghai : The property was offered and sold to the Company in 1988, since then Mr. Lim has ceased to have any interest in this project.
- (5) Regal Centre in Guangzhou : The property was first offered to the Company, but was rejected and was later sold to an independent third party in 2001. Mr. Lim has since then ceased to have any interest in this project.
- (6) Haizhu Plaza in Guangzhou : Mr. Lim still has a 100% interest in this project.

LETTER FROM THE BOARD

4. NON-COMPETITION COVENANTS UNDER THE NON-COMPETE AGREEMENT AND THE SPIN-OFF AGREEMENT

With a view to addressing the Stock Exchange's concern of potential conflict of interest under the then Listing Rule 8.10 at the time of Listing, the Non-compete Agreement and the Spin-off Agreement were entered into. The Undertaking in its entirety is separate from the Non-compete Agreement and the Spin-off Agreement. Currently the non-competition covenants given in the Non-compete Agreement and the Spin-off Agreement are still subsisting and will continue to be in force notwithstanding the proposed termination of the Undertaking and the Appointment, unless or until the same is terminated pursuant to terms of the Non-compete Agreement and the Spin-off Agreement respectively.

A. The Non-compete Agreement

The Non-compete Agreement provides, among other things, that,

1. LSG agrees, subject to paragraph (3) below, with the Company that it will not, and that it will procure that none of the members of the LSG Group will, directly or indirectly participate in, hold any right or interest in or otherwise be involved in Infrastructure Projects or development, investment or management of properties or land in the PRC (other than through the Group or the LSD Group, as appropriate) (save for the interests of LSG from time to time in the management of serviced apartments, club or resort operations and in financial, trading, manufacturing, hospitality, leisure and entertainment businesses, bonded areas (保稅區) and property development, investment and management incidental and ancillary to such business).
2. Messrs. Lim agrees, subject to paragraph (3) below, with the Company that they will not, and that they will procure that, none of their respective associates will, directly or indirectly participate in, hold any right or interest in or otherwise be involved in Infrastructure Projects or development, investment or management of properties or land in the PRC (other than through the Group or the LSD Group, as appropriate) (save for the interests of Messrs. Lim from time to time in the management of serviced apartments, club or resort operations and in financial, trading, manufacturing, hospitality, leisure and entertainment businesses, bonded areas (保稅區) and property development, investment and management incidental and ancillary to such business).
- 3
 - (i) Each of the LSG Group and the Lim Family may invest freely in single property investments below HK\$50 million and HK\$25 million respectively for their own use.
 - (ii) Each of the LSG Group and the Lim Family may directly or indirectly own properties or land in the PRC for the purpose of self-use and/or occupation.
 - (iii) Subject to the requirements set out in sub-paragraph (iv) and (v), there will be no restriction on the continuing participation by the LSG Group and Mr. Lim in the six property development projects as set out in the section headed "Background" in this circular, in which they are already involved as at the date of Non-compete Agreement.
 - (iv) In relation to the Sujia Alley in Zhabei, Shanghai and Baining Baba Plaza in Shanghai (together "LSG Projects"), LSG agrees with the Company that when the relevant LSG Project is authorised for pre-sale or pre-letting, it will offer to sell to the Group (which will have a first right of refusal to purchase) its interest in such LSG Project at a fair market price determined by reference to an independent valuation (the "LSG Offer"). LSG further agrees with the Company that if the Company declines to accept the LSG Offer and the

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Company has any development of a similar type and comparable quality and in the same city of the LSG Project which is the subject of the LSG Offer (each a “Relevant Lai Fung Property”), LSG will not conduct any marketing, sales or letting activities in relation to the relevant LSG Project until each Relevant Lai Fung Property has been substantially sold and/or let, as applicable.

- (v) In relation to the Regal Centre in Guangzhou, Haizhu Plaza in Guangzhou, Baining Baba Plaza in Shanghai (together “Lim Projects”), Mr. Lim agrees with the Company that when the relevant Lim Project is authorised for pre-sale or pre-letting, he will offer to sell to the Group (which will have a first right of refusal to purchase) his interest in such Lim Project at a fair market price determined by reference to an independent valuation (the “Lim Offer”). Mr. Lim further agrees with the Company that if the Company declines to accept the Lim Offer and the Company has any development of a similar type and comparable quality and in the same city of the Lim Project which is the subject of the Lim Offer (each a “Relevant Lai Fung Property”), Lim will not conduct any marketing, sales or letting activities in relation to the relevant Lim Project until each Relevant Lai Fung Property has been substantially sold and/or let, as applicable.
 - (vi) There will be no restriction on ownership of shares in any company whose shares are listed on the Stock Exchange or on any other stock exchange and which compete with the Company provided that such shares do not exceed 15 per cent. of such listed company’s issued share capital and provided further that at no time shall the LSG Group and the Lim Family (whether individually or collectively) exercise control over the board of the relevant company and provided that there is at any time at least one other independent shareholder (holder of shares other than LSG or a member of the Lim Family) holding more shares in the relevant company than the aggregate shareholding of the LSG Group and/or the Lim Family.
 - (vii) There will be no restriction on ownership of shares or other securities in eSun Holdings Limited (formerly known as Lai Sun Hotels International Limited), LSD and Furama Hotel Enterprises Limited and in the case of the Lim Family only, shares in LSG.
4. The covenants contained in paragraphs (1) and (2) above in so far as they relate to Infrastructure Projects shall apply upon the participation by the Group in an Infrastructure Project. Following such participation by the Group, to the extent that LSG and/or the Lim Family has invested in Infrastructure Projects, LSG and Messrs. Lim shall, and shall procure that the relevant member of the LSG Group or their respective associates (as the case may be) shall transfer to the Group, the interest of LSG and/or the Lim Family (as the case may be) in such Infrastructure Projects at the then prevailing market price as determined by an independent valuer at such time to be determined by the independent non-executive directors of the Company and such transaction shall be conducted in compliance with the Listing Rules.

The Non-compete Agreement will cease to have effect on the earliest of: (i) the date on which the Company becomes a wholly-owned subsidiary of LSD; (ii) the date on which members of the Lim Family cease to be the controlling shareholder of the Company and does not have the power to control the Board and there is at least one other independent shareholder (holder of shares other than LSG or a member of the Lim Family) holding more shares of the Company than the Lim Family taken together; (iii) the date on which LSG ceases to be the controlling shareholder of the Company and does not have the power to control the Board and there is at least one other independent shareholder holding more shares of the Company than LSG and its associates taken together.

LETTER FROM THE BOARD

B. Spin-off Agreement

The Spin-off Agreement provides, inter alia, that:

- (1) LSD agrees with the Company that it shall not have any direct or indirect interest or otherwise be engaged (other than through the Company) in any property development or investment in respect of property or land in the PRC (save for the interests of LSD from time to time in infrastructure projects and in club or resort operations and in financial, trading, manufacturing, hospitality, leisure and entertainment businesses and ownership or operations of bonded areas and any property development and investment incidental and ancillary to such businesses or for its own use) unless the share of the acquisition cost of the land in respect of a particular project (including land premium and resettlement costs) attributable to the Company is greater than 15 per cent of the consolidated net asset value of the Company as shown in its then latest audited balance sheet or, in the event of any such proposal prior to the preparation and audit of such a balance sheet, its then latest unaudited balance sheet, in which event LSD may participate as a joint venture partner in such project to the extent that the share of the acquisition cost attributable to the Company is greater than such 15 per cent level; provided that if the Company decides by reason of its financial position not to participate in such a joint venture, LSD may participate in such project for its own account or with other partners.
- (2) Notwithstanding paragraph (1) above and subject to paragraph (3) below, LSD further agrees with the Company that it will not, and it shall procure that no member of the LSD Group will, have any direct or indirect interest or otherwise be engaged (other than through the Group) in any Infrastructure Projects and management of property or land in the PRC (save for the interests of the LSD Group from time to time in the management of serviced apartments, club or resort operations and in financial, trading, manufacturing, hospitality, leisure and entertainment businesses, bonded areas and property development, investment and management incidental and ancillary to such businesses or for its own use).
- (3) The undertaking given by LSD in paragraph (2) above insofar as it relates to Infrastructure Projects shall only apply upon the Group's participation in Infrastructure Project. Following such participation on the part of the Group, to the extent that LSD had invested in Infrastructure Projects, LSD shall, or it shall procure that members of the LSD Group will, transfer such interests to the Group at the then prevailing market price as determined by an independent valuer at such time to be determined by the independent non-executive directors of the Company.
- (4)
 - (i) LSD agrees that, in relation to any project which LSD buys back from the Company pursuant to the provisions in the Spin-off Agreement (the "Buy-back Property"), when the Buy-back Property is authorised for pre-sale or pre-letting, it will offer to sell its interests in the Buy-back Property to the Group which will have a first right of refusal to purchase such property, at a fair market price determined by reference to an independent valuation of the Buy-back Property (the "Offer"). The decision as to whether the Offer shall be accepted by the Company shall be made by the independent shareholders (other than LSD and its associates) who shall be advised by the independent non-executive directors of the Company who shall in turn be advised by its independent financial adviser.
 - (ii) LSD further agrees that, if the Company declines to accept the Offer and the Group has any development of a similar type and comparable quality and in the same city as the Buy-back Property (a "Relevant Lai Fung China Property"), it will not conduct any marketing, sales or letting activities in relation to the Buy-back Property until each Relevant Lai Fung China Property has been substantially sold and/or let, as applicable.

LETTER FROM THE BOARD

- (5) The covenants given by LSD in paragraph (1), (2) and (4) above shall cease to have effect on the earliest of:
- (i) the date on which, at any time after the third anniversary of the Listing, the Company becomes a wholly-owned subsidiary of LSD; or
 - (ii) the date on which, at any time after the third anniversary of the Listing, LSD ceases to be the controlling shareholder of the Company and does not have the power to control the Board and there is at least one independent shareholder (other than LSD and its associates) holding more shares of the Company than LSD and its associates.

Notwithstanding the provisions in the Spin-off Agreement as set out in paragraph B(1) above, LSD has separately agreed with the Company that LSD will not participate in projects even in circumstances where either the share of the acquisition cost attributable to the Company is greater than the 15 per cent level or if the Company decides not to participate in such a project.

The Board has proposed to terminate only the Undertaking for the purpose of the Appointment. None of the non-competition covenants mentioned above in the Non-compete Agreement and the Spin-off Agreement will be sought to be changed at the EGM.

5. REASONS FOR THE TERMINATION OF THE UNDERTAKING AND THE APPOINTMENT

The business of the Group is property development and investment in the PRC.

Mr. Lim has substantial experiences in property development and investment in the PRC. He is also a well-known and highly respected philanthropist in the PRC having extensive business network and good relationship with governmental authorities. The Board considers that the Appointment is beneficial to the Group for carrying on its existing business in the PRC and is in line with the Company's overall objective to strengthen the existing business of the Group in the PRC.

Mr. Lim has been providing financing to meet the short-term funding requirements of the Company through advance of unsecured loans to the Company. The Board considers that the Appointment will signify Mr. Lim's further commitment to the Company and will strengthen the confidence of business partners in the Company.

Mr. Lim's interests in property development and investment in the PRC have been substantially reduced since 1997. In relation to the project of Yu Fa Garden in Shanghai, Mr. Lim only holds approximately 9.9% attributable interest. In relation to Sujia Alley in Zhabei, Shanghai, Mr. Lim only has indirect interest in it through his shareholding in LSG.

6. RECOMMENDATION

As the Undertaking was included in the Company's prospectus dated 18th November, 1997 for the Listing, the termination of the Undertaking and the Appointment are subject to approval of Independent Shareholders at the EGM.

Based on the reasons set out in the section headed "Reasons for the termination of the Undertaking and the Appointment", the Board believes that the termination of the Undertaking and the Appointment are in the interest of the Company and the Shareholders as a whole and accordingly recommends the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to consider and, if thought fit, to approve the termination of the Undertaking and the Appointment.

LETTER FROM THE BOARD

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the termination of the Undertaking and the Appointment. AMS has been appointed as an independent financial adviser to advise the Independent Board Committee in this regard.

The letter from the Independent Board Committee containing its recommendation to the Independent Shareholders in respect of the termination of the Undertaking and the Appointment is set out on page 11 in this circular. The letter from AMS containing its advice to the Independent Board Committee and the principal factors and reasons taken into account in arriving at its advice is set out on pages 12 to 16 in this circular.

7. EXTRAORDINARY GENERAL MEETING

Set out on pages 17 and 18 of this circular is a notice convening the EGM at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the termination of Undertaking and the Appointment.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the meeting you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the Hong Kong share registrar of the Company, Tengis Limited at 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong and in any event not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjournment thereof should you so desire.

Yours faithfully,
For and on behalf of the Board of
Lai Fung Holdings Limited
Lam Kin Ngok, Peter
Chairman

LETTER FROM INDEPENDENT BOARD COMMITTEE



LAI FUNG HOLDINGS

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

15th August, 2002

*To the Independent Shareholders of
Lai Fung Holdings Limited*

TERMINATION OF UNDERTAKING: APPOINTMENT OF MR. LIM POR YEN AS A DIRECTOR OF THE COMPANY

Dear Sir and Madam,

We refer to the circular (“the Circular”) dated 15th August, 2002 issued by the Company to its Shareholders, of which this letter forms part. Terms defined in the Circular have the same meanings in this letter unless the context requires otherwise.

As the Independent Board Committee, we have been appointed to advise you on the termination of the Undertaking and the Appointment, details of which are set out in the section headed “Letter from the Board” in the Circular.

AMS has been appointed to advise us on whether the termination of the Undertaking and the Appointment are in the interests of the Company and the Shareholders taken as a whole.

We wish to draw your attention to the letter from AMS as set out on pages 12 to 16 of the Circular which contains, among other things, its advice and recommendation to us as regards the termination of the Undertaking and the Appointment together with the principal factors and reasons in arriving at its advice and recommendation.

Having taken into account the advice and recommendation of AMS as set out in its letter of advice, we consider the termination of the Undertaking and the Appointment are in the interests of the Company and the Shareholders as a whole, and, therefore, recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the termination of the Undertaking and the Appointment.

Yours faithfully,

The Independent Board Committee

Wong Yee Sui, Andrew

Independent Non-executive Director

Lam Bing Kwan

Independent Non-executive Director

LETTER FROM AMS

The following is the full text of the letter from AMS dated 15th August, 2002 setting out its advice to the Independent Board Committee:



博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8–10 Duddell Street
Central
Hong Kong

15th August, 2002

*To the Independent Board Committee of
Lai Fung Holdings Limited*

Dear Sirs,

**TERMINATION OF UNDERTAKING:
APPOINTMENT OF MR. LIM POR YEN
AS A DIRECTOR OF THE COMPANY**

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the proposal to terminate the Undertaking and to appoint Mr. Lim as a director of the Company, details of which are set out in the circular dated 15th August, 2002 issued to the Shareholders (the “Circular”), 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.

This letter contains our advice to the Independent Board Committee as to whether the termination of the Undertaking and the Appointment are in the interests of the Company and the Shareholders taken as a whole.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Circular and the information and representations provided to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Circular and all information and representations which have been provided by the Company and the Directors, for which they are solely and wholly responsible, were true and accurate at the time when they were made and continue to be true and accurate at the date hereof. The Directors have confirmed, 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 there are no other facts not contained in the Circular the omission of which would make any statement in the Circular, including this letter, misleading.

We consider that we have reviewed sufficient information to reach an informed view, to justify our reliance on the information provided to us and to provide a reasonable basis for our opinion. We have no reason to suspect that any relevant information has been withheld, nor are we aware of any facts or circumstances which would render the information provided and the representations made to us untrue, inaccurate or

LETTER FROM AMS

misleading. We have not, however, carried out any independent verification of the information provided, nor have we conducted any form of in-depth investigation into the business and affairs of the Company or any of its subsidiaries.

BACKGROUND

The Company was spun-off from LSD and the shares of the Company were listed on the main board of the Stock Exchange in November 1997. The Company was primarily engaged in property development and investment in the PRC. At the time of the listing, Mr. Lim had direct and indirect personal interests in six property development projects in the PRC; and in order to avoid any potential conflict of interests, the Company, LSG and Messrs. Lim entered into the Non-compete Agreement. It was further agreed that during the period in which Mr. Lim continued to retain any interests in properties in Shanghai and/or Guangzhou, he would not be appointed as a director of the Company.

On 25th July, 2002, it was announced by the Company that the Board had proposed to terminate the Undertaking and to appoint Mr. Lim as a director of the Company. The termination of the Undertaking and the Appointment will take effect upon the same being approved by the Independent Shareholders at the EGM.

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the termination of the Undertaking and the Appointment, we have taken into consideration the following principal factors and reasons:

Reason for the Undertaking

At the time of the listing, the then Listing Rule 8.10 provided that “*where a new applicant has a controlling shareholder who or which has an interest in a business apart from the new applicant’s business and which business competes or is likely to compete, either directly or indirectly, with a new applicant’s business to the extent that there could be a conflict between the controlling shareholder’s interest and those of the general body of shareholders of the new applicant, the (Stock) Exchange may regard the new applicant as unsuitable for listing*”.

In order to alleviate the concern of the Stock Exchange of any potential conflict under the then Listing Rule 8.10, the Non-compete Agreement and the Spin-off Agreement were entered, particulars of which are summarized in the Letter from the Board in the Circular.

It was also agreed that during the period in which Mr. Lim continued to retain any interests in any properties in Shanghai and/or Guangzhou, Mr. Lim would not be appointed as a director of the Company.

Independent Shareholders should note that the Undertaking was given by Mr. Lim voluntarily for the purpose of the Listing to give additional comfort to alleviate concern related to potential conflict of interest. The Undertaking was not a requirement under the then Listing Rules and has the only effect that Mr. Lim will not be appointed as a director of the Company during the period in which he continues to retain any interests in any properties in Shanghai and/or Guangzhou.

It should also be noted that the Undertaking is not part of the Non-compete Agreement or the Spin-off Agreement. We consider that the Undertaking itself does not have any meaningful effect for avoiding potential conflict of interest, which is the primary purpose of the Non-compete Agreement and the Spin-off Agreement.

LETTER FROM AMS

Current status of Mr. Lim's property interests in the PRC

Subsequent to the Listing, the number of property projects in which Mr. Lim was interested personally had been reduced. Mr. Lim still has interest in Hong Kong Plaza in Xiamen, Yu Fa Garden in Shanghai and Haizhu Plaza in Guangzhou. In respect of Yu Fa Garden in Shanghai, Mr. Lim has only approximately 9.9% attributable interest and, being a passive investor, does not take part in its management. The Sujia Alley in Zhabei, Shanghai is a project in which Mr. Lim has only indirect interest through his shareholding in LSG. The Hong Kong Plaza in Xiamen and Haizhu Plaza in Guangzhou remain as 100% owned and controlled by Mr. Lim.

Regarding the property interests that had been disposed of by Mr. Lim subsequent to the Listing, we were advised by the directors of the Company that one of them was offered and sold to the Company in 1998. The other project was offered to the Company, but was rejected and later taken up by an independent third party in 2001.

The Non-compete Agreement

The principal undertakings given under the Non-compete Agreement are set out in the Letter from the Board in the Circular.

Under the Non-compete Agreement, Mr. Lim had undertaken, among others things, to first offer to sell his interests in Baining Baba Plaza in Shanghai, Regal Centre in Guangzhou and Haizhu Plaza in Guangzhou to the Group when the relevant property is authorized for pre-sale or pre-letting. The Company would then have a first right of refusal to purchase, at a fair market price determined by reference to an independent valuation. Mr. Lim had also undertaken to the Company that if the Company declined to accept his offer(s) and if the Company had any development of a similar type and comparable quality and in the same cities where his properties were located, he would not conduct any marketing, sales or letting activities in relation to his properties until the Company's property had been substantially sold and/or let, as applicable.

In summary, the Non-compete Agreement gives the Group the first right of refusal on Mr. Lim's completed property projects in Baining Baba Plaza in Shanghai, Regal Centre and Haizhu Plaza in Guangzhou and protects the Company's interests by preventing any potential competition which might arise between the Company's and Mr. Lim's property interests.

Independent Shareholders should note that the Non-compete Agreement is completely separate from the Undertaking. The Board has proposed to terminate the Undertaking only and the Non-compete Agreement in all respects will not be changed as a result of the termination of the Undertaking. On the basis that the issue regarding potential conflict of interest has been adequately addressed by the Non-compete Agreement, which is still subsisting and continues to bind Mr. Lim, his associates and the parties concerned, we consider that the termination of the Undertaking would not prejudice the interest of the Company in respect of any potential conflict of interest.

Composition of the Board

As at the date hereof, the Board consists of 13 members: five executive directors, six non-executive directors, and two independent non-executive directors.

Of the five executive directors of the Company, three are also directors of LSG and one is also a director of a subsidiary of LSG and the other one is an employee of LSG.

LETTER FROM AMS

Of the six non-executive directors of the Company, two are also directors of LSG, one is also a director of a subsidiary of LSG and one is a senior manager of LSG.

Therefore only two non-executive directors and the two independent non-executive directors of the Company do not appear to have any relationship with the Lim Family or its listed assets, other than being directors of the Company.

It can be observed that at present the composition of the Board reflects an LSG nominated Board. Mr. Lim, together with his associates, is the single largest shareholder of LSG. He is also the Chairman and Managing Director of LSG. As discussed above, presently all of the executive directors of the Company and 9 out of 13 members, i.e. a majority, of the full Board have relationship with the Lim Family or companies controlled by it. Following the Appointment, such ratio will increase to 10 out of 14. We consider that, in other words, the termination of the Undertaking and the Appointment would not alter the representation or direction of the Board.

Mr. Lim's role in the Company

As at the date hereof, LSG directly and indirectly is beneficially interested in an aggregate of approximately 46.04% of the issued share capital of the Company. Mr. Lim, together with his associates, holds an interest of approximately 34.3% in the issued share capital of LSG. Accordingly, Mr. Lim is deemed to be a controlling shareholder interested in 46.04% of the issued share capital of the Company.

Mr. Lim has been providing financing to meet the short term funding requirements of the Group in the form of unsecured loans. As indicated in the circular issued to the Shareholders on 31st May, 2002, such unsecured advances to the Group amounted to approximately HK\$83,376,000 as at 31st March, 2002.

Given the fact that Mr. Lim (together with his associates) is deemed to be a controlling shareholder interested in approximately 46.04% of the issued share capital of the Company and that he is a substantial creditor to the Group, we are of the view that it is fair and reasonable for Mr. Lim to request for a Board position in the Company. The effect of the Appointment as far as the Independent Shareholders are concerned has been discussed under the paragraph headed "Composition of the Board" above.

Biographical information on Mr. Lim

Mr. Lim is the founder of the LSG Group. He is the Chairman and Managing Director of LSG, the honorary Chairman of LSD, the Chairman of Crocodile Garments Limited and an executive director of eSun Holdings Limited.

Mr. Lim is a well known and highly respected businessman in Hong Kong and the PRC. He has had some 60 years of experience in the garment and property development businesses. He maintains an extensive network of both business and governmental relationships in Hong Kong and in the PRC.

He has had a long history of philanthropy both in Hong Kong and the PRC and has donated large sums to local and PRC projects.

He is an honorary citizen of the city of Guangzhou, the city of Swatow, the city of Xiamen and the city of Zhong Shan in the PRC.

Mr. Lim was also one of the Hong Kong Affairs Advisers to the PRC and is a founding member of The Better Hong Kong Foundation.

LETTER FROM AMS

Given Mr. Lim's status and distinguished accomplishments in the Hong Kong and PRC communities, we would concur with the Board's view that the Appointment is beneficial to the Company in terms of business development and is in line with the Company's overall objective of strengthening its existing business. We also consider that the Appointment will signify Mr. Lim's added commitment to the Group which will further strengthen the confidence of business partners in the Group.

RECOMMENDATION

Having considered the above principal factors, we are of the opinion that the termination of the Undertaking will not prejudice the interest of the Company and the Appointment is in the interest of the Company and the Shareholders as a whole. We therefore recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the termination of the Undertaking and the Appointment.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

NOTICE OF EXTRAORDINARY GENERAL MEETING



LAI FUNG HOLDINGS

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Lai Fung Holdings Limited (the “Company”) will be held at The Chater Room III, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong at 9:30 a.m. on Wednesday, 4th September, 2002 for the purpose of considering and, if thought fit, passing the following resolution, with or without modification, as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** (i) the termination of the Undertaking (as defined in the circular to shareholders dated 15th August, 2002 of which this resolution forms part) be and is hereby approved and (ii) Mr. Lim Por Yen be and is hereby appointed an additional director of the Company in accordance with Article 119 of the Articles of Association of the Company, both to take effect immediately upon passing of this resolution.”

By Order of the Board
Yeung Kam Hoi
Company Secretary

Hong Kong, 15th August, 2002

Registered office:

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

Head Office and Principal Place of Business in Hong Kong:

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

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (1) A form of proxy for use at the meeting is enclosed.
- (2) Any member entitled to attend and vote at the meeting is entitled to appoint another person (who must be an individual) as his proxy to attend and to vote (on a poll) instead of him. A proxy need not be a member of the Company.
- (3) The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing, or if the appointor is a corporation, either under the common seal or under the hand of an officer or attorney so authorised to sign the same.
- (4) 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 of such power or authority, must be deposited at the office of the Hong Kong share registrar of the Company, Tengis Limited, 4/F., Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or adjourned meeting.
- (5) Where there are joint registered holders of any share, any one of such joint persons may vote at the meeting, either personally or by proxy in respect of such share as if he 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 the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (6) Mr. Lim and his associates (within the meaning of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) will abstain from voting at this meeting.
- (7) Completion and return of the proxy form will not preclude shareholders of the Company from attending and voting at the Meeting (and at any adjournment thereof) if the shareholders so wish.

LAI FUNG HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

FORM OF PROXY FOR EXTRAORDINARY GENERAL MEETING ON WEDNESDAY, 4TH SEPTEMBER, 2002 AT 9:30 A.M.

I/We¹ _____ of _____ being the registered holder(s) of² _____ shares of HK\$0.10 each in the capital of Lai Fung Holdings Limited (the "Company"), HEREBY APPOINT³ _____ of _____ or failing him _____ of _____ or failing him, the Chairman of the Meeting as my/our proxy to act for me/us and on my/our behalf at the Extraordinary General Meeting of the Company to be held at The Chater Room III, Basement 1, The Ritz-Carlton Hong Kong, 3 Connaught Road Central, Hong Kong on Wednesday, 4th September, 2002 at 9:30 a.m. and at any adjournment thereof and to vote for me/us and in my/our name(s) in respect of the resolution as indicated below, and, if no such indication is given, as my/our proxy thinks fit.

	FOR ⁴	AGAINST ⁴
Ordinary Resolution		

Dated this _____ day of _____ 2002 Signature⁵ _____

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares of HK\$0.10 each registered in your name(s). If no number is inserted, this form of proxy will be deemed to relate to all the shares in the capital of the Company registered in your name(s).
3. Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.** The proxy (who must be an individual) need not be a member of the Company, but must attend the meeting in person to represent you.
4. **IMPORTANT : IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE PLACE A "√" IN THE RELEVANT BOX MARKED "FOR". IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE PLACE A "√" IN THE RELEVANT BOX MARKED "AGAINST".** Failure to complete the boxes will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than those referred to in the notice convening the meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, either under the common seal or under the hand of an officer or attorney so authorised to sign the same.
6. Where there are joint registered holders of any share, any one of such joint persons may vote at the meeting, either personally or by proxy, in respect of such share as if he 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 the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
7. To be valid, this 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 deposited at the office of the Hong Kong share registrar of the Company, Tengis Limited, 4/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
8. Any alteration made to this form of proxy must be initialled by the person who signs it.
9. Completion and return of this Proxy Form will not preclude you from attending and voting at the meeting (and at any adjournment thereof) if you so wish.