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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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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 adviser.

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:*

Lam Kin Ngok, Peter (*Chairman*)  
Lam Kin Ming (*Deputy Chairman*)  
Lam Kin Hong, Matthew (*Executive Deputy Chairman*)  
Lam Hau Yin, Lester (*Chief Executive Officer*)  
Lee Po On  
U Po Chu  
Lau Shu Yan, Julius  
Tam Kin Man, Kraven

*Non-executive Directors:*

Lim Ming Yan  
Lui Chong Chee  
Wong Yee Sui, Andrew\*  
Lam Bing Kwan\*  
Ku Moon Lun\*

\* *Independent non-executive Directors*

*Principal Place of Business:*

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

*Registered Office:*

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

29th November, 2006

*To the Shareholders*

Dear Sir or Madam,

### **PROPOSALS RELATING TO GENERAL MANDATES TO ISSUE SHARES AND TO REPURCHASE SHARES**

#### **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 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 to be proposed at the forthcoming Annual General Meeting of the Company to be held on Friday, 22nd December, 2006 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; and (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.

## **GENERAL MANDATE TO REPURCHASE SHARES**

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

The Shares Buy Back Rules are summarized 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. 5(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, 2006, 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 8,047,956,478 Shares.

Subject to the passing of the ordinary resolution No. 5(A), the Company would be allowed under the Repurchase Proposal to repurchase Shares up to a maximum of 804,795,648 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, 2006) 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</b>	<b>Lowest</b>
	<i>HK\$</i>	<i>HK\$</i>
<b>2005</b>		
November	0.2850	0.1810
December	0.3650	0.2450
<b>2006</b>		
January	0.3550	0.3000
February	0.3900	0.3250
March	0.5300	0.3800
April	0.5200	0.3400
May	0.3950	0.3200
June	0.3400	0.2850
July	0.3400	0.2800
August	0.3600	0.3100
September	0.3450	0.3150
October	0.3600	0.3000
November (up to 24th November, 2006)	0.3450	0.3050

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 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, the estate of the late Mr. Lim Por Yen ("Mr. Lim") held 115,156,000 Shares, Mr. Lau Shu Yan, Julius ("Mr. Lau") held 2,258,829 Shares, Lai Sun Garment (International) Limited ("LSG") and its wholly-owned subsidiary, Silver Glory Securities Limited ("SGS"), were interested respectively in 1,869,206,362 Shares and 1,396,481,675 Shares which represent approximately 1.43%, 0.03%, 23.23% and 17.35% respectively, making a total of 42.04% of the existing issued share capital of the Company. Assuming the shareholdings of the estate of Mr. Lim, Mr. Lau, 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 the estate of Mr. Lim, Mr. Lau, LSG and SGS in the issued share capital of the Company to 1.59%, 0.03%, 25.80% and 19.28% respectively, making

a total of 46.70%. The number of Shares beneficially owned by the public will be reduced to 53.30%. In accordance with the Takeovers Code, the estate of Mr. Lim, Mr. Lau, LSG and SGS will be presumed to be acting in concert. 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) Share 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. 5(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. 5(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. 5(A) of the Notice of Annual General Meeting of the Company contained in the Annual Report for 2005-2006) by adding to it the number of Shares repurchased by the Company under the Repurchase Proposal, if any.

#### **RIGHT TO DEMAND A POLL**

Pursuant to Article 80 of the existing Articles of Association of the Company, 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 duly demanded or is required by the Listing Rules or any other applicable laws. A poll may be demanded by:

- (i) the Chairman of the meeting; or
- (ii) at least three members present in person or by proxy and entitled to vote; or

- (iii) any member or members present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (iv) any member or members present in person or by proxy and holding conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Unless a poll is so demanded or is required by the Listing Rules or any other applicable laws 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 Company's book containing the minutes of proceedings of meetings of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of 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, 2006. 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 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 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 Ngok, Peter**  
*Chairman*