



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in Cayman Islands with limited liability)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2002

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This announcement, for which the directors of Lai Fai International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS:

- Turnover for the year ended 31 December 2002 increased by 12.0% from approximately HK\$42.0 million in last year to HK\$47.0 million in the current year.
- Net profit from ordinary activities attributable to shareholders increased by 1.8 times from approximately HK\$3.7 million in 2001 to HK\$10.4 million in the current year.
- In view of the remarkable results of the Group, the board of directors recommends a special dividend payment of HK3.67 cents per share out of the Company's distributable reserves for the year ending 31 December 2003, subject to approval by our shareholders at the forthcoming annual general meeting.

RESULTS AND DIVIDENDS

The board of directors (the "Board") of Lai Fai International Holdings Limited (the "Company") is pleased to announce the audited pro forma combined profit and loss account of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002, together with the comparative figures for the previous year as follows:

Prior to a reorganisation scheme of the Group as set out in note 1 of this announcement (the "Group Reorganisation"), the Company did not have any distributable reserves at the balance sheet date.

During the year, interim dividend of HK\$2,300,000 in respect of the year ended 31 December 2002 was declared and paid by a wholly-owned subsidiary of the Company to its then shareholders prior to the Group Reorganisation.

Subsequent to the balance sheet date, the directors of the Company proposed the payment of a special dividend of HK\$4.7 million, representing HK3.67 cents per share of the Company, out of the Company's distributable reserves for the year ending 31 December 2003, to the shareholders whose names appear on the register of members of the Company on 30 April 2003. Subject to the approval of the Company's shareholders at the Company's forthcoming annual general meeting to be held on 30 April 2003, this special dividend will be paid on 12 May 2003.

Pro Forma Combined Profit and Loss Account

Year ended 31 December 2002

	Notes	2002 HK\$'000	2001 HK\$'000
TURNOVER	4	46,975	41,950
Cost of sales		<u>(11,397)</u>	<u>(13,504)</u>
Gross profit		35,578	28,446
Other revenue and gains		45	58
Selling and distribution costs		(13,401)	(15,742)
General and administrative expenses		<u>(9,870)</u>	<u>(8,437)</u>
PROFIT FROM OPERATING ACTIVITIES	5	12,352	4,325
Finance cost		<u>(17)</u>	<u>—</u>
PROFIT BEFORE TAX		12,335	4,325
Tax	6	<u>(1,904)</u>	<u>(650)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>10,431</u>	<u>3,675</u>
DIVIDEND — Interim	7	<u>2,300</u>	<u>1,700</u>
EARNINGS PER SHARE	8		
— Basic, HK cents		<u>10.2</u>	<u>3.59</u>
— Diluted, HK cents		<u>N/A</u>	<u>N/A</u>

NOTES

1. Group Reorganisation and Basis of Presentation

The Company

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 September 2002 under the Companies Law of the Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 26 February 2003.

On incorporation, the Company had authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each, of which one share was allotted, issued and fully paid. On 11 October 2002, additional 9 shares of HK\$0.01 each were issued at par to the then shareholder. On the same date, the Company consolidated its authorised share capital of 5,000,000 shares of HK\$0.01 each into 500,000 shares of HK\$0.10 each and its issued share capital of 10 shares of HK\$0.01 each into 1 share of HK\$0.10 each. Apart from the aforesaid shares issued, no other transactions were carried out by the Company during the period from 6 September 2002 (date of incorporation) to 31 December 2002. Accordingly, the Company did not have any results for the period.

Group reorganisation

Pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, on 5 February 2003, the Company became the holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Lai Fai International (BVI) Limited ("LFBVI"), which is, at the date of this announcement, the immediate holding company of the other subsidiaries, in consideration of and in exchange for the allotment and issue of 9,999 shares of HK\$0.10 each in the share capital of the Company credited as fully paid. Further details of the Group Reorganisation are set out in the prospectus of the Company dated 11 February 2003 (the "Prospectus").

Basis of presentation

The Group Reorganisation involved companies under common control, and for accounting purposes, in the preparation of the Company's financial statements for the next year ending 31 December 2003, the Company and its acquired subsidiaries will be regarded and accounted for as a continuing group. Accordingly, for the benefit of shareholders, pro forma combined financial statements and the related notes thereto have been presented as supplementary information of the current year on the basis that the Company is treated as the holding company of its subsidiaries for the financial years presented rather than from the subsequent date of acquisition of the subsidiaries as is required by Statement of Standard Accounting Practice 27 "Accounting for Group Reconstructions" issued by the Hong Kong Society of Accountants. The pro forma combined results of the Group for the years ended 31 December 2002 and 2001 have been prepared as if the current Group structure had been in place for the two years ended 31 December 2002.

All significant transactions and balances among the companies comprising the Group have been eliminated in the preparation of the pro forma combined financial statements.

Although the Group Reorganisation had not been completed and, accordingly, the Group did not legally exist until 5 February 2003, in the opinion of the directors, the presentation of such supplementary pro forma financial statements prepared on the above basis is necessary to apprise the Company's shareholders of the Group's results and its state of affairs as a whole.

2. Corporate Information

As at 31 December 2002, the Company had not yet commenced business and the Group was not in existence as at that date. Had the Group Reorganisation been completed on 1 January 2002, the principal activity of the Company would have been investment holding. The principal activities of the Company's subsidiaries are sourcing, production, retail and wholesale of jewellery products.

3. Segment Information

During the year, the Group was principally engaged in the production, retail and wholesale of jewellery products in Hong Kong, and over 90% of the Group's revenue, results, assets and liabilities were derived from Hong Kong. Accordingly, no business or geographical segment information is presented.

4. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

5. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	11,397	13,504
Staff cost (excluding directors' remuneration):		
Wages and salaries	6,158	5,854
Retirement benefits scheme contributions	278	280
	<hr/>	<hr/>
Total staff costs	6,436	6,134
	<hr/>	<hr/>
Directors' remuneration:		
Basic salaries and other allowances	2,275	2,275
Retirement benefits scheme contributions	24	24
	<hr/>	<hr/>
	2,299	2,299
	<hr/>	<hr/>
	500	55
Auditors' remuneration	500	55
Depreciation	564	389
Amortisation of other asset	15	14
Minimum lease payments under operating lease in respect of land and building	1,902	1,619
Interest income	(6)	(42)
Gain on disposal of fixed assets	(30)	—
Exchange gains, net	(9)	(16)
	<hr/> <hr/>	<hr/> <hr/>

6. Tax

	Group	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Provision for the year	1,904	606
Underprovision in prior years	—	44
	<hr/>	<hr/>
Tax charge for the year	<u>1,904</u>	<u>650</u>

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

At the balance sheet date, the Group had no material unprovided deferred tax liabilities (2001: Nil).

7. Dividends

No dividend has been paid or declared by the Company since its incorporation. The following interim dividends were proposed by two subsidiaries of the Company, Lai Fai Jewellery Trading Limited (“LFJ”) for the year ended 31 December 2001 on 8 March 2002 and LFBVI for the year ended 31 December 2002 on 15 July 2002, respectively, to its then shareholders.

	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
LFJ	—	1,700
LFBVI	<u>2,300</u>	<u>—</u>

The rates of the dividends and the number of shares ranking for the dividends are not presented as such information, in the opinion of directors, is not meaningful for the purpose of these financial statements.

Subsequent to the balance sheet date, the directors of the Company proposed the payment of a special dividend of HK\$4.7 million, representing HK3.67 cents per share of the Company, out of the Company’s distributable reserves for the year ending 31 December 2003, to the shareholders whose names appear on the register of members of the Company on 30 April 2003. Subject to the approval of the Company’s shareholders at the Company’s forthcoming annual general meeting to be held on 30 April 2003, this special dividend will be paid on 12 May 2003.

8. Earnings Per Share

The calculation of pro forma basic earnings per share is based on the pro forma combined net profit from ordinary activities attributable to shareholders for the year of HK\$10,431,000 (2001: HK\$3,675,000) and the pro forma weighted average of 102,400,000 (2001: 102,400,000) shares deemed to be in issue throughout the year.

No pro forma diluted earnings per share have been presented as no diluting event existed for the years ended 31 December 2002 and 2001.

9. Reserves

	<i>Note</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group				
At 1 January 2001		2,999	2,408	5,407
Net profit from ordinary activities attributable to shareholders		—	3,675	3,675
Interim dividend	7	—	(1,700)	(1,700)
		<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002		2,999	4,383	7,382
Contributed surplus arising from the Group Reorganisation		18,178	—	18,178
Net profit from ordinary activities attributable to shareholders		—	10,431	10,431
Interim dividend	7	—	(2,300)	(2,300)
		<hr/>	<hr/>	<hr/>
At 31 December 2002		<u>21,177</u>	<u>12,514</u>	<u>33,691</u>

The contributed surplus represents reserve arising from the Group Reorganisation, comprising (i) the difference between the nominal value of the pro forma share capital issued by the Company and the pro forma combined share capital of the subsidiaries of the Company; and (ii) the assignment of amount due to a director, Mr. Li Shui, to LFBVI.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Turnover

The products offered by the Group comprise jewellery products made of jade and coloured gemstones, diamond and precious metals, accessories and decorative items which are designed to appeal to affluent Japanese customers.

Substantially all of the Group's retail customers are referred by inbound Japanese tour operators in Hong Kong with whom the Group has entered into Business Cooperation Agreements for an initial term of three years and then annually renewable in securing Japanese tour groups visiting the Group's retail outlet.

During the period under review, Japanese visitors coming to Hong Kong recorded a stable growth of 4.4% from 1,336,538 in year 2001 to 1,395,020 in year 2002. In line with the buoyant tourism market, the Group's total turnover has also demonstrated a growth of approximately 12.0% from HK\$42 million for year ended 31 December 2001 to HK\$47.0 million for year ended 31 December 2002.

Gross profit

The Group continues to adopt an effective cost control policy and our "One-Stop-Shop" model, which include the purchase of raw materials, design, cutting, polishing, grading, mastering, mould casting, stone-setting and the then selling, greatly reduce the intermediate cost and attribute to our effective and efficient cost control in our jewellery products.

The gross profit of the Group amounted to approximately HK\$28.4 million for the year ended 31 December 2001 and approximately HK\$35.6 million for year ended 31 December 2002. Gross profit margin increased from 67.8% to 75.7% during the period under review which was partly attributed to the Group's adoption of stringent cost control policy and partly attributed to the Group's purchases of some jewellery products from auctions. The Group saw very good opportunities in acquiring those auctioned jewellery products at a lower market cost which could render the Group's jewellery products more price competitive as well as enhancing the profit margin.

Selling and distribution costs

The selling and distribution costs amounted to approximately HK\$13.4 million for the year ended 31 December 2002 and HK\$15.7 million for the year ended 31 December 2001. The percentage of total selling and distribution cost to total turnover had decreased from 37.5% last year to 28.5% in the current year mainly due to the decrease in the level of service fees paid to inbound Japanese tour operators as a result of the Group's established market position and brand name which enabled the Group to maintain services fees payable to the Japanese tour operators at a more favourable level.

General and administrative expenses

General and administrative expenses amounted to approximately HK\$9.9 million for the year ended 31 December 2002 and HK\$8.4 million for the year ended 31 December 2001. The amount mainly included administrative staff costs, directors' remuneration and rental charges. The increment of approximately HK\$1.4 million was mainly due the increase in showroom area for rental, increase in headcounts for staff cost, depreciation, and auditors' remuneration.

Net profit from ordinary activities attributable to shareholders

The net profit from ordinary activities attributable to shareholders amounted to approximately HK\$10.4 million for the year ended 31 December 2002 and HK\$3.7 million for the year ended 31 December 2001. The remarkable increment of 1.8 times from last year was mainly attributable to the improvement in gross profit margin and better cost control as detailed above.

Business Outlook and Prospect

Hong Kong Market

According to information from the Hong Kong Tourism Board, after finishing Year 2002 with more than 20% growth in visitor arrivals to Hong Kong for a record high of 16.6 million, Hong Kong's tourism industry has started a new year in equally strong shape in 2003. Visitor arrivals to Hong Kong amounted to approximately 1.55 million in January 2003, the highest January figure to date and a 31% growth over the same month in Year 2002.

Visitor arrivals to Hong Kong from all territories of residence showed positive growth in January 2003 with several territories showing double-digit growth. In particular, visitor arrivals to Hong Kong from Japan recorded a 11.8% growth in January 2003 when comparing with the same month in Year 2002, whereas visitors arrivals to Hong Kong from Mainland China showed a tremendous growth of 65.1%.

Projecting the number of visitor arrivals in later months of Year 2003, the market does expect good growth in view of the present buoyant tourism market. However, the outbreak of war, the global economic downturn and recent outbreak of Atypical Pneumonia will inevitably affect the Hong Kong tourism industry and the Group will keep a close watch on the market.

Japan Market

According to the Hong Kong Trade Development Council, the total market size for jewellery in Japan is estimated to be approximately US\$16.2 billion, covering a diverse range of precious metals, gemstones, personal ornaments and decorative costume jewellery. Jewellery specialty stores and jewellery-and-watch retailers make up a massive 65% of the entire retail market in Japan. Hong Kong is one of the major exporters of such jewellery products to Japan with a sizeable market share of approximately 17.2% in 2000. Japan imposes up to approximately 7% tariff on the import of precious metal jewellery products.

The PRC Market

According to Chu Xiangyin, vice chairman of the Beijing Sub-Council of the China Council for the Promotion of International Trade, China has the largest potential market for jewellery and gold in the world.

The jewellery market in the PRC grew at an average annual rate of approximately 15.7% from 1991 to 2000 by reference to an article entitled 中國珠寶首飾市場狀況 published by the Hong Kong Trade Development Council in November 2001.

According to an article entitled “Imported jewellery competes, as China becomes biggest potential market” published by the Hong Kong Trade Development Council on 9 May 2002, the adjustment of China’s jewellery import policy is likely to spur consumption. With the steady improvement in the Chinese population’s standards of living in recent years, gold and jewellery are no longer luxury items exclusively for the rich and famous. The mass market continues to generate the highest demand for jewellery products. It is expected the PRC jewellery market will expand 10-fold in 10 years.

Business Objectives

The Group has solid and long standing relationships with inbound Japanese tour operators in Hong Kong which have been referring inbound Japanese tourists to the Group for an average of over seven years. The Board of Directors believes that such solid and long standing relationships will continue to contribute to the solid growth of the Group’s business in Hong Kong.

The Group’s strategic partners include (i) Artfolio Corporation and Softbank Investment International (Strategic) Limited, both being members of the Softbank Finance Corporation and its subsidiaries and associated companies (herein referred to as “Softbank Finance Group”); and (ii) Beijing Antique Corp. (北京市文物公司).

The Group has signed a Memorandum of Understanding with Softbank Finance Corporation and Softbank Investment Corporation dated 9 September 2002 to leverage on the mutual relationship and business strengths in exploring opportunities in Japan for the Group’s jewellery business. The Board of Directors believes that the business network and the local experience of the Softbank Finance Group will definitely facilitate the Group’s expansion of market in Japan.

Eyeing on the huge PRC jewellery market, the Group has also signed a Memorandum of Understanding with Beijing Antique Corp. (北京市文物公司) dated 5 September 2002. Beijing Antique Corp. (北京市文物公司) was established in 1980 and now has more than ten retail outlets in Beijing. It has ample experience in the retailing of Chinese artworks, craftworks and ornaments.

The PRC is now a member of the World Trade Organisation (“WTO”) and benefits by integrating itself with the world economy. Currently, the PRC’s import tariffs on finished jewellery products can be as high as 50%. The high import tariffs, together with value-added tax and special sales tax on finished gold and precious stone products, have greatly hampered the sales of imported jewellery. Tariff reductions as a result of WTO accession should thus be a positive factor for jewellers aiming to enter the PRC market. In order to develop the PRC’s jewellery processing industry and encourage foreign investors to participate in the PRC’s diamond industry, the PRC has gradually reduced the import tariffs of raw diamonds to its current level of 3%. Since October 1998, the PRC has also reduced the import tariffs for raw jade from Burma from 6% to 1.5%, and the value added tax was reduced from 17% to 6.5%.

The Board of Directors believes that the entering of the Memorandum of Understanding with Beijing Antique Corp. (北京市文物公司) will enable the Group to leverage on the local expertise of Beijing Antique Corp. (北京市文物公司) in expanding into the PRC market. The opening up of the retail sector in general after China’s entry into the WTO will also help Hong Kong jewellers to extend and operate their distribution services in the PRC.

Implementation Plan

As set out in the Prospectus, the Group will implement the expansion plan in three phrases in Year 2003, Year 2004 and Year 2005. Without any material and adverse changes in political, legal, fiscal, economical and market conditions in Hong Kong, Japan and the PRC, the Group will conduct research and feasibility studies on the Japan jewellery market in the 2nd quarter of Year 2003 and commence the expansion project in the 3rd and 4th quarters of Year 2003. The Group expects to commence the expansion into the PRC market in Year 2004.

A table summarizing the Group's business objectives and implement plan in the coming year was extracted below from the Prospectus for recapitulation.

Year 2003	Year 2004	Year 2005
Expansion of Japan market by opening sales outlet.	Expansion of the PRC market	Expansion of the PRC market and setup of e-commerce platform
	<ol style="list-style-type: none">1. Cooperation with of Beijing Antique Corp. (北京市文物公司) for distribution of Lai Fai jewellery products2. Opening of distribution outlet in Beijing, the PRC	<ol style="list-style-type: none">1. Opening of distribution outlet in Shanghai, the PRC2. Opening of e-commerce platform for on-sale of the Group's products globally

Liquidity and Financial Resources

For the period under review, the Group financed its operations with its own available funding and had no borrowing and long-term debt except for a finance lease payable of approximately HK\$300,000 as at 31 December 2002 for the company car which was repayable within 12 months from the balance sheet date. Except for a time deposit of HK\$83,000 pledged to a bank to secure a banking facility in respect of a utility deposit granted to the Group, there were no other charges on the Group's assets as at 31 December 2002.

As at the date of this announcement, the Group had cash and cash equivalents of approximately HK\$22.0 million of which HK\$18.0 million was placed with Hang Seng Bank Limited as Hong Kong Dollars time deposits.

Employee Information

Number of staff (excluding 2 executive directors) as at the year ended date 31 December 2002 was 55 (2001: 47), who are all working in Hong Kong.

Total staff costs (excluding directors' emolument), including retirement benefits scheme contributions for the year ended 31 December 2002 amounted to approximately HK\$6.4 million (2001: HK\$6.1 million). The Group pays its employees based on their performance, experience and the prevailing industry practice.

Each of the two executive directors has, on 5 February 2003, entered into a service agreement with the Company and is entitled to an annual performance related discretionary bonus (the “Bonus”). The Bonus will be determined by the Board of Directors provided that all bonus payments to be made to the executive directors of the Company in each relevant financial year of the Company shall not exceed 10% of the Group’s audited consolidated profits after tax as indicated in the Group’s annual audited consolidated financial statements for the relevant financial year.

(i) To continue to stay ahead of its competitors, (ii) to attract, retain and motivate talented employees, officers, advisers and business consultants striving towards the success of the Group, (iii) to recognise the contribution of certain Directors, employees and shareholders of any member of the Group to the growth of the Group and/or to the listing of Shares on GEM, the Company has adopted a pre-IPO share option scheme (the “Pre-IPO Scheme”) and a Share Option Scheme (the “Schemes”) by written resolutions passed by the Shareholders on 5 February 2003, further details of the Schemes can be referred to the heading “Share Option Schemes” below in this announcement.

Capital Structure

The Company was listed on the GEM of the Stock Exchange on 26 February 2003 through a placement of 32,000,000 shares comprising 25,600,000 new shares and 6,400,000 sale shares. The net proceeds from this placement as disclosed in the Prospectus, after deduction for relevant expenses, is approximately HK\$17.5 million. The Group will apply these proceeds for the purposes as disclosed in the Prospectus.

Since the listing of the Company’s shares on the GEM of the Stock Exchange on 26 February 2003, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

Funding and Treasury Policy

The Group adopts a prudent funding and treasury policy with regard to its overall business operations and foreign currencies receipts are converted into Hong Kong dollars and banked in at the next banking day to minimise foreign exchange risks.

Significant Investments

There was no significant investment during the year.

Material Acquisitions and Disposals/Future Plans for Material Investments

Except for those set out in the Prospectus and paragraph headed “Group Reorganisation” below, the Company and the Group had no material acquisitions or disposals nor plans for material investments or capital assets.

Gearing Ratio

The Group did not have any bank borrowing at 31 December 2002 except for the finance lease payable as mentioned above and the Group had a net cash position. In this regard, the Group's gearing ratio is zero (net debt to shareholders' funds).

Exposure to Fluctuations in Exchange Rates

For the year ended 31 December 2002, approximately 65% of the Group's income was denominated in Hong Kong dollars or US dollars, with the remaining denominated in Yen. For the same period, over 95% of the Group's expenditure was denominated in Hong Kong dollars, with the remaining denominated in Yen and Australian dollars. The Group received cash in Japanese Yen, Hong Kong dollars and US dollars from its retail operations in the approximate proportion of 74%, 18% and 8%, respectively for the year ended 31 December 2002. The Group generally charges a small premium over the market exchange rate if the customer pays in Yen, and converts the Yen receipts to Hong Kong dollars on the next banking day. As such, the Group faces minimal foreign exchange risks.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

Directors' Interests in Shares

Subsequent to the balance sheet date, on 26 February 2003, the Company was listed on the GEM of the Stock Exchange. As at the date of this announcement, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Shares of the Company

		Number of shares held and nature of interest
Director		Corporate
Mr. Li Shui	<i>Note</i>	<u>51,456,000</u>

Note:

The 51,456,000 shares are registered in the name of Best Perfect International Limited ("Best Perfect") whose issued share capital is held by Mr. Li Shui as to 91.2%. Mr. Li Shui is also a director of Best Perfect.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

Directors' Rights to Acquire Shares

Save as disclosed under the heading "Share Option Schemes" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate.

Share Option Schemes

Pursuant to the terms of the Pre-IPO Scheme adopted by the Company on 5 February 2003, options for subscribing the shares of the Company were granted on 5 February 2003 as follows:

Name of grantee	Exercise price	Number of shares subject to the options
Shareholder:		
Best Perfect	HK\$0.10	4,010,000
Directors:		
Mr. Yoshitaka Kitao	HK\$0.10	1,300,000
Mr. Yu Kam Kee, Lawrence	HK\$0.10	500,000
Mr. Ty Siao Kian, George	HK\$0.10	500,000
Mr. Che King Lun, Frankly	HK\$0.10	400,000
Mr. Mak Tak Cheong, Edmund	HK\$0.10	200,000
Other employees:		
In aggregate	HK\$0.10	1,090,000
		<u>8,000,000</u>

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 5 February 2003, the Board or a duly authorised committee (the "Committee") may, at its absolute discretion, invite any employees, directors, advisors, consultants, distributors, suppliers, agents, customers, joint venture partners and service providers to or of any member of the Group, shareholders (including their directors and employees) of any member of the Group and such other persons whom the Board or the Committee considers to have contributed or will contribute to the Group to take up options to subscribe for the Company's shares. The Scheme became effective upon the listing of the Company's shares on the GEM of the Stock Exchange on 26 February 2003. No options had been granted to any directors or employees under the Scheme up to the date of this announcement.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2002, the Company had no notice of any interest to be recorded under Section 16(1) of the SDI Ordinance because the Company was not listed on the GEM of the Stock Exchange at that date.

As at the date of this announcement, shareholders with an interest of 10% or more in the issued share capital of the Company, recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, were as follows:

Name of shareholders	Notes	Number of shares	Approximate percentage of the Company's issued capital
Best Perfect	(i)	51,456,000	40.20%
Artfolio Corporation (“Artfolio”)	(ii)	27,955,200	21.84%
Softbank Investment International (Strategic) Limited (“SIIS”)	(iii)	14,028,800	10.96%

Notes:

- (i) Best Perfect is beneficially owned by Mr. Li Shui and Mr. Lee You, directors of the Company, as to 91.2% and 8.8%, respectively. Accordingly, Mr. Li Shui shall be deemed to be interested in the same block of shares held by Best Perfect under the SDI Ordinance.

Best Perfect has been granted options to subscribe for an aggregate of 4,010,000 shares of the Company at an exercise price of HK\$0.10 per share pursuant to the terms of the Pre-IPO Plan as disclosed under the heading “Share Option Schemes” above.

- (ii) Artfolio is beneficially owned as to 84.02% by Softbank Finance Corporation (“Softbank Finance”). Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by Artfolio under the SDI Ordinance.

- (iii) SIIS is beneficially owned as to 37.29% by Softbank Investment (International) Holdings Limited (“Softbank Holdings”). Accordingly, Softbank Holdings shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance.

Softbank Holdings is wholly owned by Softbank Investment Corporation (“Softbank Investment”). Accordingly, Softbank Investment shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance.

Softbank Investment is beneficially owned as to approximately 66.06% by Softbank Finance which in turns holds approximately 10.65% of the share capital of SIIS. Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance, in addition to those shares owned by Artfolio as detailed in note (ii) above.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance

Directors' Service Contracts

Mr. Li Shui and Mr. Lee You entered into service contracts with the Company for an initial term of three years commencing on 26 February 2003 which are subject to termination by either party giving not less than three months' written notice to the other.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

Directors' Interests in Contracts

None of the directors had any material beneficial interests, either direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

The Company's shares were listed on the GEM of the Stock Exchange on 26 February 2003 and, accordingly, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

CONNECTED TRANSACTIONS

On 5 February 2003, the Group entered into a distribution and processing agreement and a purchasing agreement with Reiki Funaya K. K. ("Reiki Funaya"), pursuant to which the Group will sell jewellery products to and purchase certain raw materials from Reiki Funaya. Reiki Funaya is wholly owned by Mr. Etsuro Funaya, who is regarded as an initial management shareholder by the Stock Exchange. Such transactions constitute continuing connected transactions for the purpose of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules"). During the year, the amount of sales to Reiki Funaya was HK\$812,000 and no purchase was made from Reiki Funaya.

With respect to the above continuing connected transactions entered into by the Group, the Stock Exchange, on application by the Company, granted the Company a waiver from strict compliance with the connected transaction requirements as set out in the GEM Listing Rules.

The independent non-executive directors are of the opinion that (i) the transactions were approved by the board of directors; (ii) the terms of the above transactions were fair and reasonable so far as the shareholders of the Company were concerned; (iii) the transactions were entered into by the Group on normal commercial terms, in the usual and ordinary course of business and were carried out in accordance with the terms of

the agreements governing such transactions; and (iv) the transactions were within the relevant annual cap amounts agree by the Stock Exchange.

Save as the transactions disclosed above, there were no other transactions required to be disclosed as connected transactions in accordance with the GEM Listing Rules.

SPONSORS' INTERESTS

As updated and notified by the Company's sponsors, Celestial Capital Limited ("CASH") and SBI E2-Capital Limited ("SBI E2-Capital") (collectively the "Sponsors"), neither themselves nor its directors, employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any members of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group as at 31 December 2002 and the date of this announcement respectively other than the following in relation to SBI E2-Capital (who is a subsidiary of SIIS):

- (i) the shareholding interests of Artfolio Corporation and SIIS in the Company;
- (ii) shareholdings and/or interests in companies or joint ventures which the Softbank Finance Corporation and its subsidiaries may co-invest with the Group under the Softbank Memorandum of Understanding or which Softbank Finance Corporation, Softbank Investment Corporation and their respective subsidiaries may co-invest with the Group under the agreement dated 5 February 2003; and
- (iii) the options granted by the Company to Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence, both of whom are directors of SIIS, under the Pre-IPO plan to subscribe for shares of the Company as disclosed in this announcement.

Pursuant to the agreement dated 10 February 2003 entered with the Company, CASH and SBI E2-Capital received, and will receive, fees for acting as the Company's retained sponsors for the period from the listing date or 26 February 2003 to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

The Company set up an audit committee on 5 February 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly and one executive director, namely, Mr. Li Shui. Mr. Mak Tak Cheong, Edmund is the chairman of the audit committee. The Group's financial statements for the year ended 31 December 2002 have been reviewed by the audit committee, who are of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 26 February 2003.

On behalf of the Board

Li Shui

Executive Chairman

Hong Kong, 27 March 2003

This announcement will remain on the "Latest Company Announcements" page of the GEM website for at least seven days from its date of publication.