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麗輝國際控股有限公司  
Lai Fai International Holdings Limited  
(incorporated in the Cayman Islands with limited liability)

Annual Report 2002



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*This report, 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 report 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 report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

LI Shui (*Executive Chairman*)  
LEE You

#### Non-executive Directors

Yoshitaka KITAO (*Honorary Non-executive Chairman*)  
Yu Kam Kee, Lawrence, *M.B.E. J.P.*  
TY Siao Kian, George

#### Independent Non-executive Directors

MAK Tak Cheong, Edmund  
CHE King Lun, Frankly

### COMPLIANCE OFFICER

LI Shui  
LAM King Pui, *CPA, FCCA, AHKSA, ACIS, ACS*

### COMPANY SECRETARY

LAM King Pui, *CPA, FCCA, AHKSA, ACIS, ACS*

### QUALIFIED ACCOUNTANT

LAM King Pui, *CPA, FCCA, AHKSA, ACIS, ACS*

### AUDIT COMMITTEE

MAK Tak Cheong, Edmund (*Chairman of Audit Committee*)  
CHE King Lung, Frankly  
LI Shui

### SPONSOR

Celestial Capital Limited

### CO-SPONSOR

SBI E2-Capital (HK) Limited

### GEM STOCK CODE

8183

### AUDITORS

Ernst & Young  
*Certified Public Accountants*

### PRINCIPAL PLACE OF BUSINESS

Rear Portion of G/F  
Grandview Garden  
71-77 Pau Chung Street  
Tokwawan  
Kowloon  
Hong Kong

### REGISTERED OFFICE

Century Yard  
Cricket Square  
Hutchins Drive  
P.O. Box 2681 GT  
George Town  
Grand Cayman  
British West Indies

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

### PRINCIPAL BANKERS

The Hongkong and Shanghai Banking  
Corporation Limited  
Hang Seng Bank Limited

### WEBSITE ADDRESS

[www.laifai.com.hk](http://www.laifai.com.hk)

Customers shopping at Lai Fai for their delighted jewellery products



(Left)  
Precious Lavender Jades  
which are most welcomed  
by our customers  
(Middle & Right)  
Splendid color Australian  
Opals

(Left) Ruby sets on gold ornament  
(Middle) Sparkling Tahiti Black Pearls and  
South Sea Pearls  
(Right) High Quality South African Diamond



Crystal green Jades  
and esteemed Lavender Jades



Picture taken with Board of Directors of Lai Fai, our esteemed guests and representatives of the Stock Exchange in the Stock Exchange trading hall on the Company's listing day



Our esteemed guests and Lai Fai directors

Executive Chairman of Lai Fai — Mr. Li Shui, Mr. Lawrence Yu Kam Kee, M.B.E, JP, and Honorary non-executive chairman Mr. Yoshitaka Kitao toasted for the successful listing of Lai Fai



Mr. Lawrence Yu Kam Kee, M.B.E, JP, accepted the donation on behalf of the Community Chest from Lai Fai

## Chairman's Statement

I am pleased to present the first annual report of Lai Fai International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2002 to shareholders since its listing on the GEM of the Stock Exchange on 26 February 2003.

### RESULTS

Irrespective of the bleak outlook of the Hong Kong economy, the Group has maintained a stable growth in turnover for about 12% from approximately HK\$42 million last year to approximately HK\$47 million in the current year. The Group continues to adopt an effective cost control policy attributing to a remarkable increase of 1.8 times in net profit from ordinary activities attributable to shareholders from approximately HK\$3.7 million last year to approximately HK\$10.4 million in the current year.

For a more detailed analysis of the Group's results, please refer to the section of Management Discussion and Analysis.

### DIVIDENDS

During the year, an interim dividend of HK\$2,300,000 for the year ended 31 December 2002 was declared and paid. To share the good performance of the Group with shareholders, the Board of Directors recommends a special dividend of HK3.67 cents per share for the year ending 31 December 2003, subject to approval by our shareholders at the forthcoming Annual General Meeting

### LOOKING AHEAD

Although the gloomy economic outlook would undeniably affect the pace of economic recovery, we see great efforts have been devoted by the Hong Kong Government in promoting the tourism industry. Results are encouraging and evidenced by strong growth in the total number of visitors to Hong Kong and the tourism receipts generated in the recent years.



#### Total Number of Visitors to Hong Kong\*

	<i>Million</i>	<i>Growth %</i>
1999	11.3	+11.5
2000	13.1	+15.3
2001	13.7	+5.1
2002	16.6	+20.7

#### Total Tourism Receipts\*

	<i>HK\$'billion</i>	<i>Growth %</i>
1999	56.2	-3.8
2000	61.5	+9.4
2001	64.3	+4.5

\* Source: Hong Kong Tourism Board Publications

## Chairman's Statement

### **LOOKING AHEAD** *(Continued)*

Listing of the Company's shares on the GEM of the Stock Exchange marked the milestone of the Group's accomplishment and enhances the Group's corporate image. Looking ahead, we will leverage on our solid foundation, our strengths, our listing status and supports from our shareholders, seek geographical expansion in Japan, Mainland China and worldwide to explore the uncharted area of the Group's market growth in order to bring the highest return to shareholders.

### **ACKNOWLEDGEMENT**

I wish to take this opportunity to thank all my fellow directors and consultant for their valuable contributions. On behalf of the Board of Directors, I would also like to express my sincere gratitude to our shareholders, customers and business partners, as well as our staff for their ongoing supports and dedication.

**Li Shui**

*Executive Chairman*

Hong Kong, 27 March 2003



## 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 grow 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% from HK\$42 million for year ended 31 December 2001 to HK\$47 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% in 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.

## Management Discussion and Analysis

### OPERATION REVIEW *(Continued)*

#### 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 economical 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.

## Management Discussion and Analysis

### **BUSINESS OUTLOOK AND PROSPECT** *(Continued)*

#### **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.

## Management Discussion and Analysis

### BUSINESS OUTLOOK AND PROSPECT *(Continued)*

#### Business Objectives *(Continued)*

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 the prospectus dated 11 February 2003 (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 <ol style="list-style-type: none"> <li>Cooperation with of Beijing Antique Corp. (北京市文物公司) for distribution of Lai Fai jewellery products</li> <li>Opening of distribution outlet in Beijing, the PRC</li> </ol>	Expansion of the PRC market and setup of e-commerce platform <ol style="list-style-type: none"> <li>Opening of distribution outlet in Shanghai, the PRC</li> <li>Opening of e-commerce platform for on-line sale of the Group’s products globally</li> </ol>

## Management Discussion and Analysis

### 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 will be repayable within twelve 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 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 report, the Group had cash and cash equivalents of approximately HK\$22 million of which HK\$18 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 Report of the Directors and note 22 to the financial statements.

## Management Discussion and Analysis

### 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 note 1 to the financial statements, 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.



## Report of the Directors

The directors herein present their first report and the audited financial statements of the Company for the period from 6 September 2002 (date of incorporation) to 31 December 2002 which include supplementary pro forma combined financial statements of the Group (legally created subsequent to 31 December 2002) for the year ended 31 December 2002.

### GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) on 6 September 2002. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the Group structure in preparation for the listing of the Company's shares on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the Group on 5 February 2003. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1 and 25 to the financial statements and in the Company's prospectus dated 11 February 2003 (the "Prospectus").

Subsequent to the balance sheet date, on 26 February 2003, the shares of the Company were listed on the GEM of the Stock Exchange.

Supplementary financial information about the Group, comprising a pro forma combined profit and loss account, balance sheet, summary statement of changes in equity and cash flow statement, have been presented in this annual report in order to further apprise shareholders of the Group's affairs, as if the Group had been in existence throughout the year ended 31 December 2002. The information referring to the Group presented in this directors' report has been presented on a basis consistent with that of the preparation of the pro forma financial information which is further explained in note 1 to the financial statements.

### PRINCIPAL ACTIVITIES

As at 31 December 2002, the Company had not yet commenced business and the Group was not in existence. Had the Group Reorganisation been completed on 31 December 2002, the principal activity of the Company would have been investment holding. Details of the principal activities of the subsidiaries are set out in note 25 to the financial statements. There were no changes in the nature of the subsidiaries' principal activities during the year.

### SEGMENT INFORMATION

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

## Report of the Directors

### RESULTS AND DIVIDENDS

The Group's pro forma combined profit for the year ended 31 December 2002 and its pro forma combined state of affairs at that date, together with the state of affairs of the Company as at 31 December 2002, are set out in the accompanying financial statements on pages 28 to 56.

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 as set out in note 1 to the financial statements.

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.

### SUMMARY FINANCIAL INFORMATION

The following is a summary of the pro forma combined results and of the pro forma combined assets and liabilities of the Group prepared on the basis set out in the note below.

#### Pro forma combined results

	Year ended 31 December		
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	46,975	41,950	37,857
Profit before tax	12,335	4,325	3,225
Tax	(1,904)	(650)	—
Net profit from ordinary activities attributable to shareholders	10,431	3,675	3,225

## Report of the Directors

### SUMMARY FINANCIAL INFORMATION *(Continued)*

#### Pro forma combined assets and liabilities

	31 December		
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	2,327	1,340	1,469
Current assets	35,383	26,432	20,477
Current liabilities	(4,018)	(18,689)	(16,538)
Net current assets	31,365	7,743	3,939
Net assets	33,692	9,083	5,408

*Note:* The summary of the pro forma combined results of the Group for each of the two years ended 31 December 2001 and of the pro forma combined assets and liabilities of the Group as at 31 December 2000 and 2001 have been extracted from the Prospectus. Such summary was prepared as if the current structure of the Group had been in existence throughout these financial years and is presented on the basis set out in note 1 to the financial statements. The pro forma combined results of the Group for the year ended 31 December 2002 and the pro forma combined assets and liabilities of the Group as at 31 December 2002 are those set out on pages 29 and 30, respectively, of this report.

#### FIXED ASSETS

Details of movements in the fixed assets of the Group are set out in note 14 to the financial statements.

#### SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 25 to the financial statements.

#### SHARE CAPITAL AND SHARE OPTIONS

Details of the Company's share capital and share options are set out in note 22 to the financial statements.

## Report of the Directors

### RESERVES

Details of movements in the reserves of the Group during the year are set out in note 23 to the financial statements and in the pro forma combined summary statement of changes in equity.

### POST BALANCE SHEETS EVENTS

Details of the significant post balance sheet events of the Group are set out in note 28 to the financial statements.

### 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.

### DISTRIBUTABLE RESERVES

Prior to the Group Reorganisation, the Company did not have any distributable reserves at the balance sheet date.

### MAJOR CUSTOMERS AND SUPPLIERS

The Group's five largest customers accounted for less than 30% of the total pro forma combined turnover for the year.

Purchases from the Group's five largest suppliers accounted for 44.3% of the total pro forma combined purchases for the year and purchases from the largest supplier included therein accounted for 29.8%.

None of the directors of the Company or any of their associates or shareholders which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers or five largest suppliers.

## Report of the Directors

### DIRECTORS

The directors of the Company for the period from 6 September 2002 (date of incorporation) to the date of this report were as follows:

#### Executive directors:

Mr. Li Shui ( <i>Executive chairman</i> )	(appointed on 13 September 2002)
Mr. Lee You	(appointed on 14 September 2002)

#### Non-executive directors:

Mr. Yoshitaka Kitao ( <i>Honorary non-executive chairman</i> )	(appointed on 14 September 2002)
Mr. Yu Kam Kee, Lawrence	(appointed on 14 September 2002)
Mr. Ty Siao Kian, George	(appointed on 14 September 2002)

#### Independent non-executive directors:

Mr. Mak Tak Cheong, Edmund	(appointed on 5 February 2003)
Mr. Che King Lun, Frankly	(appointed on 14 September 2002)
Mr. Ho Hou Chiu, William	(appointed on 14 September 2002 and resigned on 4 February 2003)

In accordance with article 87 of the Company's articles of association, Mr. Lee You and Mr. Che King Lun, Frankly will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

## Report of the Directors

### DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out as follows:

#### Executive Directors

**Mr. LI Shui** (李 霄), aged 48, is the founder of the Group, executive chairman, chief executive officer, compliance officer and audit committee member of the Company. Mr. Li founded the Group in 1990 and has over 12 years of experience in the jewellery industry. Mr. Li has been a committee member of the Beijing Committee of the People's Political Consultative Conference (中國人民政治協商會議北京市委員會委員) since 1994, and is a committee member of Yun Fu City of the People's Political Consultative Conference (中國人民政治協商會廣東省雲浮市委員會委員). Mr. Li is also a director of Beijing Chinese Overseas Friendship Association (北京海外聯誼會理事). Mr. Li was a former director of Po Leung Kuk Board of Directors in 1995-1996. Mr. Li was appointed an independent non-executive Director of SIIS in May, 2001 and became non-executive director of Softbank Investment International (Strategic) Limited ("SIIS") a substantial shareholder of the Company in March, 2002 as a result of the SIIS's investment in the Group. He has never been involved in the day-to-day management of SIIS. Mr. Li is fluent in Mandarin, Japanese and Cantonese. Mr. Li is the youngest brother of Mr. Lee.

**Mr. LEE You** (李 鈞), aged 50, is the chief operating officer of the Company responsible for marketing and business development. Mr. Lee was engaged in general trading business in Japan before he joined the Group in 1990. He has over 12 years of experience in the jewellery industry. Mr. Lee had lived and studied in Japan for 7 years and has in depth understanding of the Japanese culture and language. Mr. Lee is the eldest brother of Mr. Li.

#### Non-executive Directors

**Mr. Yoshitaka KITAO** (北尾 吉孝), aged 52, is the honorary non-executive chairman of the Company. Mr. Kitao is a director of Softbank Corp., a company listed on the First Session of the Tokyo Stock Exchange Limited. He is also a director of other Softbank Group companies including Softbank Investment Corporation and Softbank Finance Corporation. He was appointed as one of the Company's non-executive Directors on 14 September 2002.

**Mr. YU Kam Kee, Lawrence** (余 錦基), M.B.E., J.P., aged 57, is the vice-chairman of SIIS. He has been with the SIIS group for 36 years. He is also currently the Co-Chairman of the Campaign Committee of The Community Chest of Hong Kong and Director of the Hong Kong Football Association. He also serves on many charitable and social organisations. He was appointed as one of the Company's non-executive Directors on 14 September 2002.

**Mr. TY Siao Kian, George**, aged 70, is the chairman of Metropolitan Bank & Trust Company (ranking the first among Philippine private commercial banks in terms of assets, loans and deposits for the quarter ending March 2001), Metrobank Foundation, Toyota Motor Philippines Corporation and Toyota Autoparts Philippines Corporation. He is also a member of the board of trustees of the Metrobank Foundation. He was appointed as one of the Company's non-executive Directors on 14 September 2002.



## Report of the Directors

### DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES *(Continued)*

#### Independent Non-Executive Directors

**Mr. Mak Tak Cheong, Edmund** (麥德昌), aged 38, is the chairman of the audit committee of the Company. Mr. Mak served as the financial controller of Chinadotcom Corporation, a NASDAQ listed company, and as the financial controller and company secretary of hongkong.com Corporation, a GEM listed company. He is a Certified Public Accountant and a member of the Illinois CPA Society, a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Society of Accountants. He obtained a Bachelor of Computer Science degree and a Bachelor of Commerce degree from the University of Windsor in 1986 and 1989, respectively. He was appointed as one of the Company's independent non-executive Directors on 5 February 2003.

**Mr. CHE King Lun, Frankly** (朱經綸), aged 40, is an audit committee member of the Company. He is one of the founding partners of TrioArt Company, a Chinese antiques and artworks trading company in Hong Kong. Mr. Che has over 13 years of experience in the auction business of real estate and Chinese antiques and artworks. He obtained a higher certificate in valuation and property management from the Hong Kong Polytechnic in 1990. He was appointed as one of the Company's independent non-executive Directors on 14 September 2002.

#### Consultant

**Mr. CHUA Lam** (蔡瀾), aged 61, was appointed as a consultant to the Company on 5 February 2002 in respect of business development. Mr. Chua has extensive experience in movie industry and the media. Mr. Chua is famous for his entertaining, travel and food books and appears in various local television programmes.

#### Senior Management

The table below sets forth certain information about the senior management of the Group.

**Mr. LAM King Pui** (林景沛), aged 37, is the Group's chief financial officer, the Company's compliance officer and company secretary. He obtained a Bachelor of Arts degree in Accountancy from the Hong Kong Polytechnic University in 1995 and is a fellow member of the Association of Chartered Certified Accountants, a Certified Public Accountant, an associate member of the Hong Kong Society of Accountants, an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries. Before Mr. Lam joined the Group in June 2002, he had worked in Ernst & Young, an international accounting firm, for approximately eight years, in Mei Ah Entertainment Group Limited whose shares are listed on the Main Board (stock code: 0391) as group financial controller for approximately five years, and in M21 Technology Limited whose shares are listed on GEM (stock code: 8153) as company secretary for approximately one year.

**Ms. YIP Kwai Lin** (葉桂蓮), aged 54, is the general manager of Lai Fai Jewellery Trading Limited, a wholly-owned subsidiary of the Company. She is responsible for the daily sales and marketing management of the Group. Ms. Yip is fluent in Japanese, English and Mandarin. Ms. Yip first joined the Group in September 1990 but resigned in May 2000 due to personal reasons. In August 2000, she rejoined the Group.

## Report of the Directors

### DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHIES *(Continued)*

#### Senior Management *(Continued)*

**Ms. KONG Yuk Ching** (江玉清), aged 38, is the general manager of Champion Force Industrial Limited, a wholly-owned subsidiary of the Company. She is responsible for product design, purchasing of raw gemstones, production, export and quality control of the Group. Ms. Kong has over 16 years of experience in jewellery industry and is fluent in Japanese, English and Mandarin. Ms. Kong has taken several courses in School of Continuing Education of the Hong Kong Baptist University for jadeite identification, diamond grading, gem knowledge and jewellery production, appraisal and grading. Before joining the Group in August 1992, she had worked with a jewellery production company.

**Ms. WONG Lai Chu** (黃麗珠), aged 43, is the assistant general manager of Lai Fai Jewellery Trading Limited, a wholly-owned subsidiary of the Company. She is responsible for the daily sales management of the Group. Ms. Wong has 28 years of experience in the jewellery retail industry and is fluent in Japanese and Mandarin. Prior to joining the Group in September 2002, she had been a general manager of and worked in a jewellery retail outlet for 15 years.

**Ms. LEE Mei Ling** (李媚玲), aged 47, is the assistant general manager of Lai Fai Jewellery Trading Limited, a wholly-owned subsidiary of the Company. She is responsible for the daily sales management of the Group. Ms. Lee has about 28 years of experience in the jewellery retail industry and is fluent in Japanese, English and Mandarin. Before Ms. Lee joined the Group in September 1990, she had worked in the sales department of a duty free shop in Hong Kong.

**Mr. CHU Ka Loi** (朱家來), aged 45, is the assistant general manager of the Company. He is responsible for the sales and administrative duties of the Group and has about 15 years of experience in the jewellery retail industry and general administration. Mr. Chu is fluent in Japanese and English and had taken a number of courses in personnel management and labour law. Before joining the Group in September 1990, he had worked in two household electrical appliance companies.

**Ms. CHAN Yuk Ping** (陳玉屏), aged 45, is the group accountant responsible for daily accounting and working capital management of the Group. Ms. Chan has about 13 years of experience in accounting and had taken a number of courses in the areas of computer application and accounting. Ms. Chan joined the Group in April 1993 and has since been responsible for the accounting function of the Group.

### 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.

## Report of the Directors

### 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.

### 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 report, 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

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

*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.

## Report of the Directors

### SHARE OPTION SCHEMES

Pursuant to the terms of a 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 International Limited	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
		8,000,000

Further details of the Pre-IPO Scheme are set out in note 22 to the financial statements.

Under the terms of a share option scheme (the "Scheme") adopted by the Company on 5 February 2003, the board of directors (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. Further details of the Scheme are set out in note 22 to the financial statements. 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 report.

## Report of the Directors

### 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 report, 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.

## Report of the Directors

### 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 agreed 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 report 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 report.



## Report of the Directors

### **SPONSORS' INTERESTS** *(Continued)*

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.

### **AUDITORS**

Ernst & Young were appointed as the first auditors of the Company for the period ended 31 December 2002.

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Li Shui**  
*Chairman*

Hong Kong, 27 March 2003

## REPORT OF THE AUDITORS



To the members

**Lai Fai International Holdings Limited**

*(Incorporated in the Cayman Islands with limited liability)*

We have audited the financial statements on pages 28 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

### OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2002 and of its results for the period from 6 September 2002 (date of incorporation) to 31 December 2002 and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**

*Certified Public Accountants*

Hong Kong, 27 March 2003

**Balance Sheet**

31 December 2002

	<i>Notes</i>	<b>2002 HK\$'000</b>
CURRENT ASSET		
Cash on hand		—
<hr/>		
CAPITAL		
Issued capital	1, 22	—
<hr/>		

**Li Shui**  
*Director***Lee You**  
*Director*

## Pro Forma Combined Profit and Loss Account

Year ended 31 December 2002

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

## Pro Forma Combined Balance Sheet

31 December 2002

	<i>Notes</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets	14	2,024	1,022
Other asset	15	303	318
		<b>2,327</b>	1,340
<b>CURRENT ASSETS</b>			
Inventories	16	27,323	21,152
Accounts receivable	17	296	306
Prepayments, deposits and other receivables		6,540	2,871
Pledged time deposit		83	80
Cash and bank balances		1,141	2,023
		<b>35,383</b>	26,432
<b>CURRENT LIABILITIES</b>			
Accounts payable	18	591	494
Accruals and other payables		1,305	775
Due to a director	19	—	15,778
Trade deposit received	20	712	1,262
Tax payable		1,110	191
Bank overdraft, unsecured		—	189
Finance lease payable	21	300	—
		<b>4,018</b>	18,689
<b>NET CURRENT ASSETS</b>		<b>31,365</b>	7,743
		<b>33,692</b>	9,083
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	1	1
Reserves	23	33,691	7,382
Proposed interim dividend	12, 23	—	1,700
		<b>33,692</b>	9,083

**Li Shui**  
*Director*

**Lee You**  
*Director*

## Pro Forma Combined Summary Statement of Changes in Equity

Year ended 31 December 2002

	<i>Notes</i>	<b>2002</b> <b>HK\$'000</b>	2001 <i>HK\$'000</i>
Total equity at beginning of year		<b>9,083</b>	5,408
Contributed surplus arising from the group reorganisation	<i>23</i>	<b>18,178</b>	—
Net profit from ordinary activities attributable to shareholders	<i>23</i>	<b>10,431</b>	3,675
Interim dividends proposed in respect of the financial year ended:	<i>12, 23</i>		
— 31 December 2001		<b>(1,700)</b>	—
— 31 December 2002		<b>(2,300)</b>	—
<b>Total equity at end of year</b>		<b>33,692</b>	9,083



## Pro Forma Combined Cash Flow Statement

Year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before tax	12,335	4,325
Adjustments for:		
Depreciation	564	389
Amortisation of other asset	15	14
Interest income	(6)	(42)
Interest expense	17	—
Gain on disposal of fixed assets	(30)	—
Operating profit before working capital changes	12,895	4,686
Increase in inventories	(6,171)	(4,895)
Decrease in accounts receivable	10	174
Increase in prepayments, deposits and other receivables	(677)	(59)
Increase/(decrease) in accounts payable	97	(1,286)
Increase in accruals and other payables	530	64
Decrease in trade deposit received	(550)	(378)
Cash generated from/(used in) operations	6,134	(1,694)
Hong Kong profits tax paid	(985)	(459)
Dividends paid	(4,000)	—
Net cash inflow/(outflow) from operating activities	1,149	(2,153)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of fixed assets	(966)	(274)
Proceeds from disposal of fixed assets	30	—
Interest received	6	42
Repayment of amount due from a director	—	364
Increase in pledged time deposit	(3)	(3)
Net cash inflow/(outflow) from investing activities	(933)	129

## Pro Forma Combined Cash Flow Statement

Year ended 31 December 2002

	2002 HK\$'000	2001 HK\$'000
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Interest paid	(17)	—
Net advance from a director	2,400	3,449
Capital element of finance lease payments	(300)	—
Prepaid share issue expenses	(2,992)	—
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(909)</b>	<b>3,449</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(693)</b>	<b>1,425</b>
Cash and cash equivalents at beginning of year	1,834	409
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>1,141</b>	<b>1,834</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	1,141	2,023
Bank overdraft	—	(189)
	<b>1,141</b>	<b>1,834</b>

## Notes to Financial Statements

31 December 2002

### 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 (the "Listing Date").

On incorporation, the Company had authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each, 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.

Since the Company was incorporated on 6 September 2002, no comparative amounts for 2001 have been presented in the Company's balance sheet.

#### Group reorganisation

Pursuant to a group reorganisation (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 report, the immediate holding company of the other subsidiaries as set out in note 25 to the financial statements, 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").

## Notes to Financial Statements

31 December 2002

### 1. GROUP REORGANISATION AND BASIS OF PRESENTATION *(Continued)*

#### 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 (as further detailed in note 25 to the financial statements) 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 and the pro forma combined balance sheets as at 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 set out in note 25 to the financial statements.

### 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs have been adopted for the first time in the preparation of the current year's financial statements:

- SSAP 1 (Revised) : "Presentation of financial statements"
- SSAP 11 (Revised) : "Foreign currency translation"
- SSAP 15 (Revised) : "Cash flow statements"
- SSAP 34 : "Employee benefits"

## Notes to Financial Statements

31 December 2002

### 3. IMPACT OF NEW AND REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) (Continued)

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The pro forma combined summary statement of changes in equity for the current year and the comparative figures as set out on page 31 of the financial statements have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The adoption of the revised SSAP 11 has had no material effect on these financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the pro forma combined cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. The pro forma combined cash flow statement for the current year and the comparative figures as set out on pages 32 and 33 of the financial statements have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. In addition, disclosures are now required in respect of the Company’s share option scheme, as detailed in note 22 to the financial statements. These share option scheme disclosures are similar to the disclosures of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM Listing Rules”) previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP. This has had no major impact on these financial statements.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The pro forma combined financial statements of the Group have been presented on the basis as set out in note 1 above. They have been prepared under the historical cost convention.

#### Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

## Notes to Financial Statements

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

#### **Fixed assets and depreciation**

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The annual rate used for this purpose for all fixed assets is 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

#### **Other asset**

Other asset, representing the cost of membership in a golf club, is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost over the term of membership of 27 years.

## Notes to Financial Statements

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value, after making due allowances for any obsolete or slow-moving items.

Cost in respect of raw materials and finished goods purchased is determined on the unit cost basis. In the case of finished goods manufactured, cost mainly comprises direct materials, direct labour costs and direct overheads. Net realisable value is based on estimated selling prices less any further costs to be incurred to completion and disposal.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

#### **Provisions**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

## Notes to Financial Statements

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

#### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

#### Leased assets/Operating lease

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.



## Notes to Financial Statements

31 December 2002

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

#### Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

#### Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

#### Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### 5. 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.

## Notes to Financial Statements

31 December 2002

### 6. 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.

### 7. PROFIT FROM OPERATING ACTIVITIES

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

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost of inventories sold	11,397	13,504
Staff costs (excluding directors' remuneration — note 8):		
Wages and salaries	6,158	5,854
Retirement benefits scheme contributions	278	280
<b>Total staff costs</b>	<b>6,436</b>	<b>6,134</b>
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)

## Notes to Financial Statements

31 December 2002

### 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Fees	—	—
Other emoluments:		
Basic salaries and other allowances	2,275	2,275
Retirement benefits scheme contributions	24	24
	<b>2,299</b>	2,299

The number of executive directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<b>2</b>	2

Each of the two executive directors received emoluments of HK\$1,312,000 (2001: HK\$1,312,000) and HK\$987,000 (2001: HK\$987,000), respectively, for the year ended 31 December 2002. The non-executive directors and independent non-executive directors did not receive any fees or emoluments during the year.

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

## Notes to Financial Statements

31 December 2002

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2001: two) directors, details of whose emoluments are set out in note 8 above. The details of remuneration paid to the remaining three non-director, highest paid employees are as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Basic salaries and other allowances	839	636
Retirement benefits scheme contributions	27	30
	<b>866</b>	<b>666</b>

The remuneration of the non-director, highest paid employees fell within the range of nil to HK\$1,000,000 for the years ended 31 December 2002 and 2001.

During the year, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

### 10. FINANCE COST

Finance cost represents interest on finance lease (*note 21*).

### 11. TAX

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

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).

## Notes to Financial Statements

31 December 2002

### 12. 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 HK\$'000	2001 HK\$'000
LFJ	—	1,700
LFBVI	2,300	—

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\$4,700,000, 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.

### 13. 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 as set out in detail in note 22 to the financial statements.

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

## Notes to Financial Statements

31 December 2002

### 14. FIXED ASSETS

#### Group

	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 January 2002	5,486	799	1,665	7,950
Additions	461	164	941	1,566
Disposals	—	—	(1,500)	(1,500)
	<b>5,947</b>	<b>963</b>	<b>1,106</b>	<b>8,016</b>
Accumulated depreciation:				
At 1 January 2002	4,660	653	1,615	6,928
Provided during the year	312	62	190	564
Disposals	—	—	(1,500)	(1,500)
	<b>4,972</b>	<b>715</b>	<b>305</b>	<b>5,992</b>
Net book value:				
At 31 December 2002	<b>975</b>	<b>248</b>	<b>801</b>	<b>2,024</b>
At 31 December 2001	826	146	50	1,022

The net book value of a motor vehicle held under a finance lease as at 31 December 2002 amounted to HK\$801,000 (2001: Nil), the inception value of which amounted to HK\$600,000 (*note 24(a)*).

## Notes to Financial Statements

31 December 2002

### 15. OTHER ASSET

	Group	
	2002 HK\$'000	2001 HK\$'000
Cost	390	390
Accumulated amortisation	(87)	(72)
Net book value	303	318

### 16. INVENTORIES

	Group	
	2002 HK\$'000	2001 HK\$'000
Raw materials	12,578	9,318
Finished goods	14,745	11,834
Net book value	27,323	21,152

### 17. ACCOUNTS RECEIVABLE

Accounts receivable represent receivables from financial institutions in respect of credit card receivables and are aged within one week. No credit term was granted to the Group's customers as the Group's sales were made by cash, travellers' cheques or credit cards.

## Notes to Financial Statements

31 December 2002

### 18. ACCOUNTS PAYABLE

The aged analysis of the accounts payable of the Group as at the balance sheet date is as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Outstanding balances with ages:		
Within 30 days	134	264
Between 31 and 60 days	320	58
Between 61 and 180 days	56	86
Between 181 and 365 days	—	5
Over 365 days	81	81
	591	494

### 19. AMOUNT DUE TO A DIRECTOR

The amount due to a director, Mr. Li Shui, represented fundings provided by Mr. Li Shui to finance the Group's operation. The balance at 31 December 2001 was unsecured, interest-free and had no fixed terms of repayment. As part of the Group Reorganisation, the outstanding balance of HK\$18,178,000 up to 25 March 2002 was assigned by Mr. Li Shui to LFBVI pursuant to the deed of assignments dated 25 March 2002 entered into, among others, between Mr. Li Shui and LFBVI and was credited to the Group's contributed surplus (*note 23*).

### 20. TRADE DEPOSIT RECEIVED

The amount represents a purchase deposit received from Reiki Funaya K.K. ("Funaya") which is unsecured, interest-free and has no fixed terms of repayment.

Mr. Etsuro Funaya, a director of LFJ, is the controlling shareholder of Funaya. Mr. Etsuro Funaya resigned as the director of LFJ on 27 February 2002 and, accordingly, is not regarded as a related party thereafter.



## Notes to Financial Statements

31 December 2002

### 21. FINANCE LEASE PAYABLE

The Group leases a motor vehicle and the lease is classified as finance lease which has a lease term of two years.

At 31 December 2002, the total future minimum lease payments under finance lease and its present value were as follows:

	<b>Group</b>	<b>Present value of minimum lease payments</b>
	<b>Minimum lease payments</b>	<b>HK\$'000</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Amounts payable within one year and total minimum finance lease payments	317	<u>300</u>
Future finance charges	(17)	
Total net finance lease payables	300	
Portion classified as current liabilities	(300)	
Non-current portion of finance lease payable	—	

The above finance lease is secured by the personal guarantee given by Mr. Li Shui, a director of the Company.

### 22. SHARE CAPITAL

The following changes in the Company's authorised and issued share capital took place during the period from 6 September 2002 (date of incorporation) to the date of approval of these financial statements:

- (a) On incorporation, the Company had an authorised share capital of HK\$50,000 divided into 5,000,000 shares of HK\$0.01 each, one share of which was issued and fully-paid.
- (b) On 11 October 2002, additional 9 shares of HK\$0.01 each were issued at par to the then shareholder.

## Notes to Financial Statements

31 December 2002

### 22. SHARE CAPITAL (Continued)

- (c) Pursuant to an ordinary resolution passed on 11 October 2002, 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.

Subsequent to the balance sheet date, the movements in share capital were as follows:

- (d) On 5 February 2003, as part of the Group Reorganisation, the Company issued an aggregate of 9,999 new shares of HK\$0.10 each credited as fully paid in consideration for the acquisition of the entire issued share capital of LFBVI. The excess of the fair value of the shares of this subsidiary acquired, as determined on the basis of the consolidated net assets at that date over the nominal value of the Company's shares issued in exchange therefor, was credited to the Company's contributed surplus.
- (e) On 5 February 2003, the authorised share capital of the Company was increased from HK\$50,000 to HK\$30,000,000 by the creation of further 299,500,000 shares of HK\$0.10 each. On the same date, a total of 102,390,000 shares of HK\$0.10 each were allotted as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their respective shareholdings at the close of business on that day by way of capitalisation of the sum of HK\$10,239,000 standing to the credit of the contributed surplus, which was arising from the Group Reorganisation mentioned in note (d) above, of the Company.
- (f) On 26 February 2003, 25,600,000 new shares of HK\$0.10 each were issued to the public at HK\$1.00 each for a total cash consideration, before expenses, of HK\$25,600,000.

## Notes to Financial Statements

31 December 2002

### 22. SHARE CAPITAL (Continued)

The following is a summary of the above movements in the issued share capital of the Company:

	<i>Notes</i>	<b>Number of shares issued</b>	<b>Par value HK\$'000</b>
Share allotted and issued at par for			
cash on incorporation	<i>(a)</i>	1	—
Issue of shares	<i>(b)</i>	9	—
Consolidation of shares	<i>(c)</i>	(9)	—
Shares issued as consideration for the acquisition			
of the entire issued share capital of LFBVI			
pursuant to the Group Reorganisation	<i>(d)</i>	9,999	1
Capitalisation of the Company's contributed			
surplus arising from the Group Reorganisation	<i>(e)</i>	102,390,000	—
<hr/>			
Pro forma share capital as at 31 December			
2001 and 2002*		102,400,000	1
New issue on public listing	<i>(f)</i>	25,600,000	2,560
Capitalisation of the contributed surplus as			
set out above	<i>(e)</i>	—	10,239
<hr/>			
		128,000,000	12,800
<hr/>			

\* For the purpose of these financial statements, the pro forma share capital as at 31 December 2002 and 2001 represents 10,000 shares of the Company of HK\$0.10 each in issue upon completion of the Company's acquisition of LFBVI, as if the Company had been in existence at 1 January 2001.

#### Pre-IPO share option plan

In recognising the contribution of certain directors, employees and shareholders of any member of the Group to the growth of the Group and/or the listing of the shares of the Company on the GEM of the Stock Exchange, the Company adopted a pre-IPO share option plan (the "Pre-IPO Plan") on 5 February 2003. Pursuant to the terms of the Pre-IPO Plan, options to subscribe for an aggregate of 8,000,000 shares of the Company were granted to five directors and a shareholder of the Company and seven employees of the Group on 5 February 2003, at an exercise price of HK\$0.10.

## Notes to Financial Statements

31 December 2002

### 22. SHARE CAPITAL (Continued)

#### Pre-IPO share option plan (Continued)

The directors and the shareholder are entitled to exercise (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling twelve months after the Listing Date (the "First Exercise Period"); and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the First Exercise Period, provided that such exercise of options would not render the percentage of the Company's shares in public hands to fall below the minimum prescribed percentage of 25% as required by Rule 11.23 of the GEM Listing Rules.

The employees are entitled to exercise (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling six months after the Listing Date (the "First Employees' Exercise Period"); and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the First Employees' Exercise Period.

#### Share option scheme

Under the terms of the share option scheme (the "Scheme") adopted by the Company on 5 February 2003, the board of directors (the "Board") or a duly authorised committee (the "Committee") of the Company is authorised, at their absolute discretion, to 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 shares of the Company. The purpose of the Scheme is to encourage its participants to contribute to the success of the Group.

The Scheme became effective on 26 February 2003 and, unless otherwise cancelled or amended, remains in force for ten years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company may not exceed 10% of the issued share capital of the Company or to a maximum of 30% should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued. The maximum number of shares issuable under share options to each eligible participant in the Scheme within 12-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

## Notes to Financial Statements

31 December 2002

### 22. SHARE CAPITAL *(Continued)*

#### Share option scheme *(Continued)*

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period after the option has been granted by the Board. The option period, during which an option may be exercised, is determined by the Board or the Committee, but may not be later than ten years after the date of the grant of the option. According to the Scheme, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Scheme.

The exercise price will be determined by the Board or the Committee, but may not be less than the higher of (i) the closing price of the shares on the GEM of the Stock Exchange on the date of the options granted; (ii) the average of the closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of the options granted; and (iii) the nominal value of the shares.

No share options were allotted under the Scheme as at 31 December 2002 and up to the date of approval of these financial statements. As at the date of approval of these financial statements, 12,800,000 shares are available for issue under the Scheme, representing 10% of the issued share capital of the Company at that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

## Notes to Financial Statements

31 December 2002

### 23. RESERVES

	<i>Note</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Group</b>				
At 1 January 2001		2,999	2,408	5,407
Net profit from ordinary activities attributable to shareholders		—	3,675	3,675
Interim dividend	12	—	(1,700)	(1,700)
<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	12	—	(2,300)	(2,300)
<hr/>				
At 31 December 2002		21,177	12,514	33,691
<hr/>				

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 as set out in note 22 to the financial statements 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 (*note 19*).

### 24. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT

#### (a) Major non-cash transactions

- (i) During the year, the Group entered into a finance lease arrangement in respect of a motor vehicle with a total capital value at the inception of the lease of HK\$600,000 (2001: Nil).
- (ii) As further detailed in note 19 to the financial statements, up to 25 March 2002, the outstanding balance of the amount due to a director, Mr. Li Shui, of HK\$18,178,000 was assigned by Mr. Li Shui to LFBVI pursuant to the deed of assignments entered into, among others, between Mr. Li Shui and LFBVI.

## Notes to Financial Statements

31 December 2002

### 24. NOTES TO PRO FORMA COMBINED CASH FLOW STATEMENT *(Continued)*

#### (b) Restricted cash and cash equivalent balances

A time deposit of the Group is pledged to a bank to secure banking facility in respect of a utility deposit granted to the Group.

### 25. SUBSIDIARIES

Particulars of the subsidiaries which were acquired pursuant to the Group Reorganisation set out in note 1 to the financial statements are as follows:

Company name	Place of incorporation and operations	Issued and paid-up share capital	Percentage of equity attributable to the Company	Principal activities
Lai Fai International (BVI) Limited *	British Virgin Islands	US\$1,000	100	Investment holding
Lai Fai Jewellery Trading Limited	Hong Kong	HK\$3,000,000	100	Production, retail and wholesale of jewellery products
Champion Force Industrial Limited	Hong Kong	HK\$2	100	Sourcing of jewellery products

\* *Directly held by the Company*

## Notes to Financial Statements

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### 26. OPERATING LEASE ARRANGEMENT

The Group leases its office property and retail shop under an operating lease arrangement which is negotiated for a term of three years.

The Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	Group	
	2002 HK\$'000	2001 HK\$'000
Within one year	1,560	585
In the second to fifth years, inclusive	1,715	—
	3,275	585

### 27. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following material related party transactions during the year:

(a)

	Notes	Group	
		2002 HK\$'000	2001 HK\$'000
Sale of goods	(i)	812	1,102
Purchase of inventories	(ii)	—	88

The above transactions were effected with Funaya. Mr. Etsuro Funaya, a director of LFJ, is the controlling shareholder of Funaya. Mr. Etsuro Funaya resigned as a director of LFJ on 27 February 2002 and is not regarded as a related party thereafter.

Notes:

- (i) Sale of goods were made based on amounts which were equal to the cost of those inventories purchased by the Company plus an average margin of 22% (2001: 22%).
- (ii) Purchase of inventories were made at prices based on terms agreed between Funaya and the Group.



## Notes to Financial Statements

31 December 2002

### 27. RELATED PARTY TRANSACTIONS *(Continued)*

- (b) Included in the Group's prepayments, deposits and other receivables at 31 December 2002 were prepaid advisory fee of HK\$405,000 and public relations service fee of HK\$88,000 paid to SBI E2-Capital Securities Limited ("SBI") and Ebizal Marketing (Hong Kong) Limited ("Ebizal"), respectively, in respect of the listing of the Company's shares on the GEM of the Stock Exchange. SBI and Ebizal are subsidiaries of Softbank Investment International (Strategic) Limited ("SIIS"), a strategic investor of the Company.
- (c) Mr. Li Shui provided a personal guarantee to Artfolio Corporation and SIIS, strategic investors of the Company, that the net profit after tax of the Group for the twelve months ending 31 March 2003 will not be less than HK\$10 million. Any shortfall between the guaranteed amount and the actual amount will be fully reimbursed by him to the Group personally within the first calendar week of June 2003.

In the opinion of the directors, the above transactions were carried out in the ordinary course of business of the Group.

### 28. POST BALANCE SHEET EVENTS

In addition to the events set out in notes 1 and 22 to the financial statements, the following significant events took place subsequent to 31 December 2002:

- (a) A deed of indemnity dated 5 February 2003 was entered into between the Company and each of Mr. Li Shui, Mr. Lee You and Best Perfect International Limited in respect of indemnities in favour of the Group relating to, among other matters, Hong Kong estate duty and taxation which may be payable by the Group in relation to certain relevant events or matters occurring on or before 24 February 2003 to the extent that, inter alia, such amounts are not otherwise provided in the financial statements of the companies comprising the Group up to 31 July 2002.
- (b) The directors of the Company proposed the payment of a special dividend of HK\$4,700,000, 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.

### 29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2003.

## Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of the shareholders of Lai Fai International Holdings Limited (the "Company") will be held at Oregon Room, 47/F, The American Club, Two Exchange Square, Central, Hong Kong on Wednesday, 30 April 2003 at 4:30 p.m. for the following purposes:

1. To receive and consider the Audited Pro Forma Combined Financial Statements together with the Reports of the Directors and Auditors thereon for the year ended 31 December 2002;
2. To declare a special dividend for the year ending 31 December 2003;
3. To re-elect the retiring Directors and to authorise the Board of Directors to fix their remuneration;
4. To re-appoint Auditors of the Company and to authorise the Board of Directors to fix their remuneration; and
5. To consider and, if thought fit, pass with or without amendments, the following resolutions as an ordinary resolution:

**"THAT:**

- (a) subject to paragraph (c) of this Resolution, and pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to allot, issue or otherwise deal with additional shares in the share capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and the same is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this Resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;

## Notice of Annual General Meeting

- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors of the Company pursuant to the approval in paragraph (a) of this Resolution, otherwise than by way of (i) a Rights Issue (as hereinafter defined); or (ii) the exercise of or the grant of any option under any share option scheme of the Company or similar arrangement for the time being adopted for the issue or grant to officers and/or employees of the Company and/or any of its subsidiaries of shares or options to subscribe for or rights to acquire shares of the Company; or (iii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares in accordance with the Articles of Association of the Company in force from time to time, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval be limited accordingly; and
- (d) for the purpose of this Resolution:
  - (aa) “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
    - (i) the conclusion of the next annual general meeting of the Company;
    - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; or
    - (iii) the revocation or variation of the authority given under this Resolution by an ordinary resolution of the shareholders in general meeting.”

## Notice of Annual General Meeting

(bb) "Rights Issue" means an offer of shares in the share capital of the Company or an offer or issue of warrants or options or similar instruments to subscribe for shares in the share capital of the Company open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares in the Company (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognised regulatory body or any stock exchange applicable to the Company)."

6. To consider and, if thought fit, pass with or without amendments, the following resolutions as an ordinary resolution:

**"THAT:**

- (a) subject to paragraph (b) of this Resolution, the exercise by the Directors of the Company during the Relevant Period as defined in Resolution 5(d)(aa) of all powers of the Company to repurchase issued shares in the share capital of the Company on the Growth Enterprise Market of the Stock Exchange or any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, and otherwise in accordance with the rules and regulations of the Securities and Futures Commission of Hong Kong, the Stock Exchange or of any other stock exchange as amended from time to time and all applicable laws in this regard, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of issued shares of the Company which may be repurchased by the Company pursuant to the approval in paragraph (a) of this Resolution during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, "Relevant Period" shall have the same meaning as in Resolution 5(d)(aa)."

## Notice of Annual General Meeting

7. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

**"THAT:**

conditional upon Resolutions No. 5 and 6 above being passed, the general mandate granted to the Directors of the Company to allot, issue or otherwise deal with additional shares pursuant to Resolution No. 5 be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of shares repurchased by the Company under the authority granted pursuant to Resolution No. 6."

By Order of the Board

**Li Shui**

*Chairman*

Hong Kong, 27 March 2003

*Notes:*

1. Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. The Register of Members will be closed from Wednesday, 23 April 2003 to Wednesday, 30 April 2003, both days inclusive, during which period no transfer of shares can be registered.
3. In order to qualify for the proposed special dividend, unregistered holders of share should ensure that transfers accompanied by the relevant share certificates and transfer forms are lodged with the Company's Registrars in Hong Kong, Tengis Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration by not later than 4:00 p.m. on Tuesday, 22 April 2003.
4. An explanatory statement containing further details regarding the proposed Resolutions nos. 5 to 7 set out in the above notice will be dispatched to shareholders together with the 2002 Annual Report of the Company.