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## **Lai Fai International Holdings Limited**

*(Incorporated in Cayman Islands with limited liability)*

### **NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND EXEMPT CONTINUING CONNECTED TRANSACTIONS**

- (1) The Directors announce that on 15 October 2003, LFJ, a wholly owned subsidiary of the Company has entered into the Agreement with HOMEOSTYLE. Pursuant to the Agreement, HOMEOSTYLE will purchase jewellery products from LFJ so as to extend the range of jewellery products offered by HOMEOSTYLE to its customers in Japan, and LFJ will supply jewellery products to HOMEOSTYLE for an aggregate value of not more than HK\$6,000,000 for each financial year of the Company ending on 31 December 2005.
- (2) HOMEOSTYLE shall be entitled to use the “Lai Fai” brand name, subject to the prior written consent of LFJ, in the promotion and marketing of jewellery products provided under the Agreement at HOMEOSTYLE’s 39 retail outlets. The Directors believe that such promotion and marketing activities will increase the awareness of and raise the profile of the Group’s “Lai Fai” brand name which will in turn be an important factor in maintaining the Group’s competitive position. Under the terms of the Agreement, LFJ agrees to reimburse HOMEOSTYLE for its reasonable costs and expenses incurred from time to time up to a maximum amount of HK\$300,000 in relation to the promotion and marketing of the “Lai Fai” brand name during the term of the Agreement.

HOMEOSTYLE is held as to approximately 66% by the Softbank Funds, which are managed by Softbank Investment, and which in turn is owned as to 66.06% by Softbank Finance. In addition, HOMEOSTYLE is directly owned as to approximately 6.6% by Softbank Finance. Artfolio, a substantial shareholder of the Company under the GEM Listing Rules, is owned as to approximately 84.02% by Softbank Finance. Softbank Finance and/or its group interest taken together are directly or indirectly interested so as to exercise or control the exercise of 30% or more of the voting power at general meetings or the composition of a majority of board of directors of HOMEOSTYLE. Accordingly, HOMEOSTYLE constitutes an associate (as defined in the GEM Listing Rules) of Artfolio and therefore is a connected person of the Company. Artfolio and SIIS and their associates will abstain from voting at the EGM in respect of the ordinary resolution(s) to approve the transactions contemplated under the Agreement.

A circular containing, among other matters, information on the Continuing Connected Transactions; the recommendation of the Independent Board Committee; a letter of advice from an independent financial adviser and a notice of the EGM to be convened at which ordinary resolution(s) will be proposed to consider, and if thought fit, approve the Non-exempt Continuing Connected Transactions and all matters contemplated thereunder will be dispatched to the Shareholders within twenty-one (21) days of publication of this announcement pursuant to the GEM Listing Rules.

The Directors announce that on 15 October 2003, LFJ, a wholly owned subsidiary of the Company has entered into the Agreement with HOMEOSTYLE.

## **THE AGREEMENT**

### **Date of the Agreement**

15 October 2003

### **Parties**

The Agreement was entered into between:

- (A) HOMEOSTYLE as buyer; and
- (B) LFJ as supplier

### **Major terms of the Agreement**

#### ***Non-exempt Continuing Connected Transactions***

- (1) The aggregate value of all the purchases (net of the value of the Products returned by HOMEOSTYLE to LFJ as a result of any defects in such Products as the parties thereto may agree from time to time) made by HOMEOSTYLE during the term of the Agreement shall not exceed HK\$6,000,000 for each financial year of the Company ending on 31 December 2005. The maximum amount of the consideration payable under the Agreement by HOMEOSTYLE to LFJ in each financial year is determined based on (i) the historical sales and sales mix of the jewellery products of HOMEOSTYLE, (ii) the non-binding letter of intent issued by HOMEOSTYLE to the Company indicating that HOMEOSTYLE will purchase jewellery products from the Group with value of not more than HK\$6,000,000 per annum until the financial year of the Company ending on 31 December 2005 and (iii) the existing and potential production capacity of jewellery products of the Group, the average costs of production and the estimated mark-up in the value of jewellery products to be supplied by LFJ (and as LFJ sees fit). The price payable by HOMEOSTYLE to LFJ under each purchase order for the Products shall be agreed between HOMEOSTYLE and LFJ from time to time, taking into account (but not limited to) the then prevailing costs of producing the Products, quality and quantity of the raw materials used in such Products and their specifications. Such price will be inclusive of the costs of packaging, carriage and insurance of the Products.

- (2) LFJ shall invoice HOMEOSTYLE at the time of shipment of the Products to HOMEOSTYLE. 30% of the sum shown to be due in each of such invoices shall be payable within 45 days of the date of the issue of the relevant invoice; and the remaining 70% of the sum shown to be due in each of such invoices shall be payable within 120 days of the date of the issue of the relevant invoice.

### ***Exempt Continuing Connected Transactions***

HOMEOSTYLE shall be entitled to use the “Lai Fai” brand name, subject to the prior written consent of LFJ, in the promotion and marketing of the jewellery products provided by LFJ under the Agreement at any of the HOMEOSTYLE’s 39 retail outlets. The Directors believe that such promotion and marketing activities will increase the awareness of and raise the profile of the Group’s “Lai Fai” brand name which in turn will be an important factor in maintaining the Group’s competitive position. Under the terms of the Agreement, LFJ agrees to reimburse HOMEOSTYLE for its reasonable costs and expenses incurred from time to time up to a maximum amount of HK\$300,000 in relation to the promotion and marketing of the “Lai Fai” brand name during the term of the Agreement.

The Agreement will be in force from the Effective Date until 31 December 2005 unless otherwise terminated by either party giving 3 months’ prior written notice.

The Directors (including the independent non-executive directors of the Company) are of the view that the terms of the Agreement are normal commercial terms, determined on arm’s length basis and will be within the usual and ordinary course of business of the Group and are fair and reasonable so far as the Shareholders as a whole are concerned.

### **Purpose of the Agreement**

The Group is based in Hong Kong and engaged in the business of manufacturing, trading and retailing of jewellery products with a focus on inbound tourists to Hong Kong from Japan.

As described under the section headed “Business objectives and implementation plan” of the prospectus of the Company dated 11 February 2003, the Group intends to build on its experience of serving inbound Japanese tourists in Hong Kong and its relationship with the Softbank Finance Group in Japan to expand the Group’s geographical coverage and exploring sales opportunities in potential new markets such as Japan. HOMEOSTYLE is a retailer of cosmetics, fashion and jewellery products in Japan and, at present, has a well-established distribution network of 39 outlets, across major cities in Japan. The Company intends, through the Agreement, to leverage on the business networks and relationships of HOMEOSTYLE in Japan and cooperate with HOMEOSTYLE to exploit potential business opportunities in sales and distribution of jewellery products in Japan, thereby commencing the process of marketing the Group’s brand name in the Japanese market.

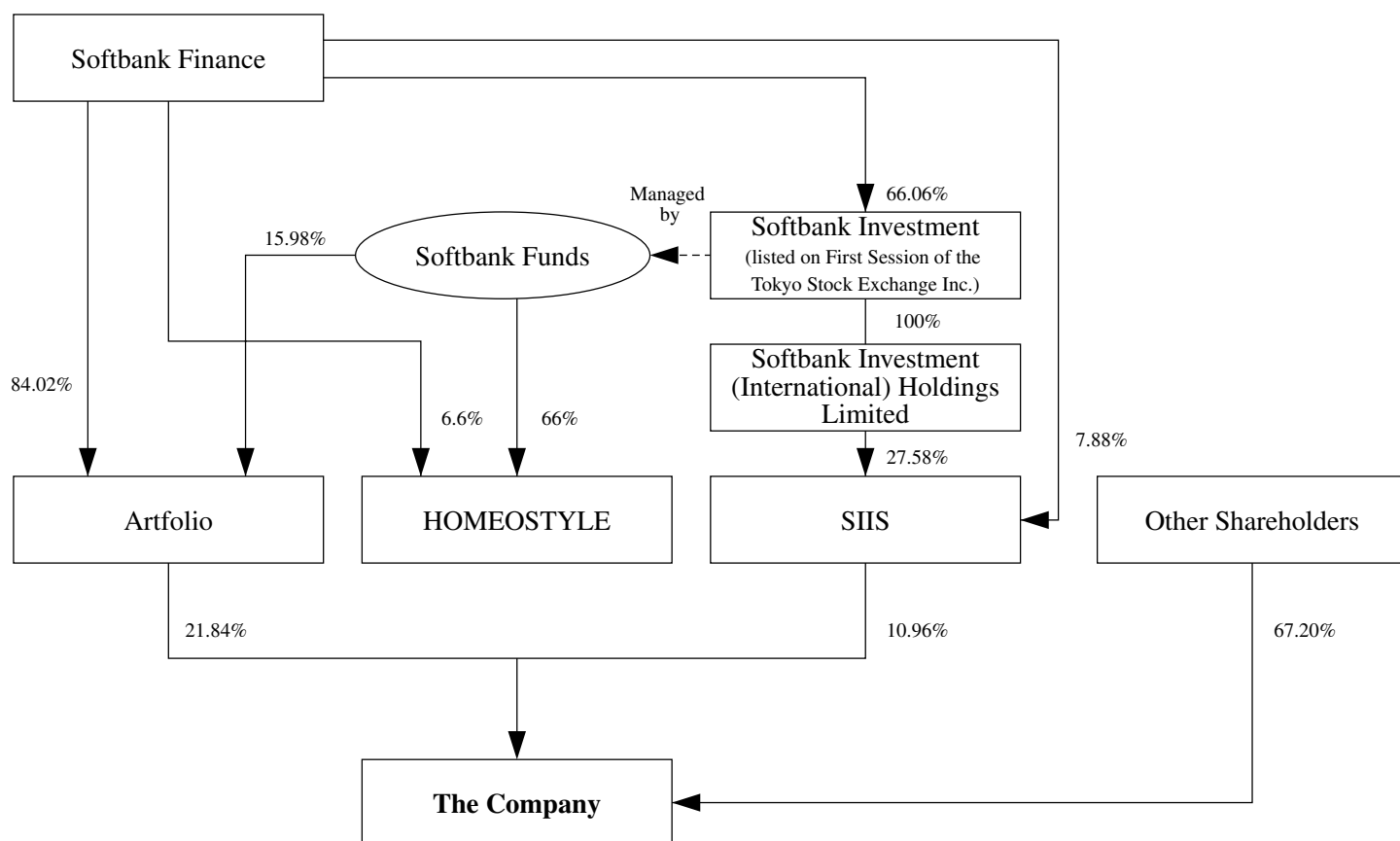
The Directors understand that since the inception of its business, HOMEOSTYLE used to contract out to third parties in the pursuit of its jewellery products business at its retail outlets, but now it intends to conduct such business on its own efforts. Before entering into the Agreement, HOMEOSTYLE conducted due diligence on the Group including but not limited to the quality of the Group’s products, the experience of the Group’s management, the reputation of the Group, the selling prices of the Group and other criteria. Both parties to the Agreement have gone through a series of negotiation before entering into the

Agreement. The Board therefore considers that the Agreement will not only increase the Group's revenue to be generated from such sales to HOMEOSTYLE, but that it will also provide the Company with a further opportunity to expand its presence and increase consumer awareness of its jewellery products in Japan.

### Relationship between the Group and the counterparties

HOMEOSTYLE is held as to approximately 66% by the Softbank Funds, which are managed by Softbank Investment, and which in turn is owned as to 66.06% by Softbank Finance. In addition, HOMEOSTYLE is directly owned as to approximately 6.6% by Softbank Finance. Artfolio, a substantial shareholder of the Company under the GEM Listing Rules, is owned as to approximately 84.02% by Softbank Finance. Softbank Finance and/or its group interest taken together are directly or indirectly interested so as to exercise or control the exercise of 30% or more of the voting power at general meetings or the composition of a majority of board of directors of HOMEOSTYLE. Accordingly, HOMEOSTYLE constitutes an associate of Artfolio and therefore is a connected person of the Company within the meaning set out in the GEM Listing Rules.

### Shareholding structure of the Group



Given that the Non-exempt Continuing Connected Transactions will occur on a regular and continuing basis, the Directors consider that it would not be practicable to announce, or if necessary, obtain the Company's shareholders' prior approval on each occasion when they arise. Under the GEM Listing Rules, for so long as Artfolio and SIIS remain substantial shareholders of the Company, all of the Non-exempt Continuing Connected Transactions will constitute non-exempt continuing connected transactions under Rule 20.26 of the GEM Listing Rules. Pursuant to Rules 20.35 and 20.36 of the GEM Listing

Rules, the Non-exempt Continuing Connected Transactions would require disclosure by way of announcement, dispatch of circulars to Shareholders and prior approval by the Independent Shareholders on each occasion when they arise. Accordingly, the Company seeks the approval of the Independent Shareholders for the Non-exempt Continuing Connected Transactions from the Effective Date until 31 December 2005 subject to the further conditions stated below.

### **Proposed annual cap**

The proposed annual cap in respect of the aggregate consideration payable to the Group under the Agreement during each financial year of the term of the Agreement shall be HK\$6,000,000. It is determined based on to (i) the historical sales and sales mix of the jewellery products of HOMEOSTYLE, (ii) the non-binding letter of intent issued by HOMEOSTYLE to the Company indicating that HOMEOSTYLE will purchase jewellery products from the Group with value of not more than HK\$6,000,000 per annum until the financial year of the Company ending on 31 December 2005 and (iii) the existing and potential production capacity of jewellery products of the Group, the average costs of production and the estimated mark-up in the value of jewellery products to be supplied by LFJ (and as LFJ sees fit); while the proposed annual cap in respect of the promotion and marketing of the “Lai Fai” brand name and reimbursable by the Group to HOMEOSTYLE for its reasonable costs and expenses incurred from time to time is determined primarily by reference to the historical figures of such activities.

### **Conditions**

The approval of the Independent Shareholders for the Non-exempt Continuing Connected Transactions will be subject to the following conditions:

1. the Non-exempt Continuing Connected Transactions described above would not exceed the relevant annual caps referred to above in each financial year of the Company during the term of the Agreement;
2. the independent non-executive directors will review the Non-exempt Continuing Connected Transactions annually and confirm in the Company’s annual report for the year in question that the relevant Non-exempt Continuing Connected Transactions have been entered into:
  - a. in the ordinary and usual course of the business of the Group;
  - b. either on normal commercial terms or, if there are no sufficient comparable transactions to determine whether they are on normal commercial terms, on terms no less favorable to the relevant Group than terms available to or from (as appropriate) independent third parties; and
  - c. in accordance with the terms of the Agreement;
3. the auditors of the Company shall provide a letter (at least 10 business days prior to the bulk printing of the annual report of the Company) to the Directors (with a copy to the Stock Exchange) annually, confirming that the Non-exempt Continuing Connected Transactions for the respective period/year annually:
  - a. have received the approval of the Board;

- b. are in accordance with the pricing policy of the Group if those transactions involve the provision of goods or services by the Group (where applicable);
  - c. have been entered into in accordance with the terms of the Agreement; and
  - d. have not exceeded the annual cap as stated above; and for the purpose of the above review by the auditors of the Company, HOMEOSTYLE has undertaken to the Stock Exchange that it will allow the auditors of the Company sufficient access to its accounting records for the purpose of reporting on such transactions as set out in Rule 20.28 of the GEM Listing Rules;
4. details of the Non-exempt Continuing Connected Transactions shall be disclosed in the Company's annual reports as described in Rules 20.34(1) to (5) of the GEM Listing Rules; and
  5. in the event that the aggregate consideration of the relevant Non-exempt Continuing Connected Transactions in any financial year shall be greater than the higher of HK\$10,000,000 or 3% of the consolidated net tangible assets of the Group, the Non-exempt Continuing Connected Transactions and the annual cap amount for such financial year are subject to review and re-approval by Independent Shareholders at the Company's annual general meeting for such financial year and at each subsequent annual general meeting so long as the Non-exempt Continuing Connected Transactions and the aggregate consideration payable by HOMEOSTYLE under the Agreement for the relevant financial year is greater than the relevant annual cap for that year, unless the Company applies for and obtains a separate waiver from the Stock Exchange. The independent non-executive Directors will be required to opine in the Company's annual report whether or not the Company should continue with the Non-exempt Continuing Connected Transactions.

### **Subsequent changes**

If there are any changes in any terms of the Agreement for the Non-exempt Continuing Connected Transactions or the relevant caps stated in the paragraph headed "Proposed annual cap" are exceeded, the Company will have to comply with the relevant provisions of Chapter 20 of the GEM Listing Rules, unless the Company reports to the Stock Exchange and is granted an exemption.

In the event of any future amendments to the GEM Listing Rules imposing more stringent requirements than as at the date of the approval of the Non-exempt Continuing Connected Transactions by the Independent Shareholders on transactions of any kind to which the Non-exempt Continuing Connected Transactions belong, the Company must take immediate steps to ensure compliance with such requirements within a reasonable time.

### **General**

The EGM will be convened at which ordinary resolution(s) will be proposed to approve the Non-exempt Continuing Connected Transactions. Each of Artfolio and SIIS, being substantial shareholders of the Company, respectively hold approximately 21.84% and 10.96% of the total issued share capital of the Company as at the date of this announcement. Accordingly, Artfolio and SIIS and their associates will abstain from voting in the EGM to approve the Non-exempt Continuing Connected Transactions.

The Independent Board Committee has been appointed to advise the Independent Shareholders on whether or not the terms of the Non-exempt Continuing Connected Transactions are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. An independent financial adviser will be appointed to advise the Independent Board Committee in respect of the terms of the Non-exempt Continuing Connected Transactions.

A circular containing, among other things, further information on the Continuing Connected Transactions, the recommendation of the Independent Board Committee to the Independent Shareholders, the letter of advice from the independent financial adviser to the Independent Board Committee in relation to the Non-exempt Continuing Connected Transactions and the notice to convene the EGM will be sent to the Shareholders within twenty-one (21) days of publication of this announcement pursuant to the GEM Listing Rules .

## **Definitions**

“Agreement”	a supply agreement dated 15 October 2003 entered into between HOMEOSTYLE and LFJ
“Artfolio”	Artfolio Corporation, a company incorporated in Japan with limited liability on 1 November, 2000 and is owned as to 84.02% and 15.98% by Softbank Finance and Softbank Internet Fund No.2, respectively. It is principally engaged in the marketing and distribution of Japanese contemporary and antique artworks in Japan
“associate”	has the meaning ascribed to it under the GEM Listing Rules
“Board”	the board of Directors
“Company”	Lai Fai International Holdings Limited, a company incorporated in the Cayman Islands with limited liability and whose shares are listed on the GEM
“Continuing Connected Transactions”	the transactions set out in the paragraphs headed “Exempt Continuing Connected Transactions” and “Non-exempt Continuing Connected Transactions”
“Directors”	the directors of the Company
“Effective Date”	the date on which the Independent Shareholders shall have passed a resolution at the EGM approving the transactions contemplated under the Agreement
“EGM”	an extra ordinary general meeting of the Company to be convened to approve the Non-exempt Continuing Connected Transactions

“Exempt Continuing Connected Transactions”	the payments representing LFJ’s reimbursements to HOMEOSTYLE for its reasonable costs and expenses incurred from time to time up to a maximum amount of HK\$300,000 in relation to the promotion and marketing of the “Lai Fai” brand name during the term of the Agreement
“GEM”	the Growth Enterprises Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the Growth Enterprises Market of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“HOMEOSTYLE”	HOMEOSTYLE Inc., a company incorporated in Japan with limited liability and having its registered office at 3/F., D.B. Building, 1-4 Wakaba, Shinjuku-ku, Tokyo, Japan. HOMEOSTYLE is a connected person of the Company under the GEM Listing Rules
“Independent Board Committee”	an independent committee of the Board comprising the two independent non-executive Directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly, to be appointed to consider and advise the Independent Shareholders with regard to the Non-exempt Continuing Connected Transactions
“Independent Shareholders”	Shareholders of the Company other than Artfolio and SIIS
“LFJ”	Lai Fai Jewellery Trading Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Non-exempt Continuing Connected Transactions”	the transactions under which LFJ will supply jewellery products to HOMEOSTYLE for an aggregate value of no more than HK\$6,000,000 for each financial year of the Company ending on 31st December 2005
“Products”	the jewellery products supplied and produced by LFJ to HOMEOSTYLE on terms of the Agreement and in accordance with each relevant purchase order from time to time
“Shareholders”	shareholders of the Company



“SIIS”	Softbank Investment International (Strategic) Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board of the Stock Exchange
“Softbank Finance”	Softbank Finance Corporation, a corporation incorporated in Japan on 24th March 1999 and is wholly owned by Softbank Corp., a corporation incorporated in Japan and whose shares are listed on the First Session of the Tokyo Stock Exchange Inc. (stock code: 9984), its subsidiaries and associated companies
“Softbank Funds”	Softbank Technology Fund No.2 and Softbank Internet Technology Fund No.3
“Softbank Investment”	Softbank Investment Corporation, a corporation incorporated in Japan on 8 July 1999 and whose shares are listed on the First Session of the Tokyo Stock Exchange Inc. (stock code: 8473)
“Substantial shareholder”	person who is interested in the issued and unissued shares of HK\$0.10 each in the Company which represent 10% or more of the issued share capital of the Company , as more particularly described in Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the legal currency of Hong Kong

By Order of the Board  
**Li Shui**  
*Executive Chairman*

Hong Kong, 15 October, 2003

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

*This announcement will remain on the GEM website at [www.hkgem.com](http://www.hkgem.com) on the “Latest Company Announcements” page for at least 7 days from the date of its posting.*