
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **Lai Fai International Holdings Limited**, you should at once hand this circular, together with the form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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

Financial Adviser



SBI E2-Capital (HK) Limited

**Independent Financial Adviser to the Independent Board Committee
of
Lai Fai International Holdings Limited**

***Hercules*
Hercules Capital Limited**

A letter from the independent board committee of Lai Fai International Holdings Limited is set out on page 13 of this circular. A letter from Hercules Capital Limited dated 31 October 2003 containing its advice to the independent board committee is set out on pages 14 to 20 of this circular.

A notice convening an extraordinary general meeting of Lai Fai International Holdings Limited to be held at Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong at 4 p.m. on 17 November 2003 is set out on pages 28 to 29 of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong branch share registrar and transfer office, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event no later than 24 hours before the time appointed for holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the accompanying form of proxy will not preclude you from attending and voting in person at the meeting or any adjourned meeting (as the case may be) should you so desire.

This circular will remain on the "Latest Company Announcements" page on the GEM website at www.hkgem.com for at least 7 days from the date of this circular.

31 October 2003

CHARACTERISTICS OF GEM

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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DEFINITIONS

In this circular, the following expressions have the following meanings unless otherwise defined or the context otherwise requires:

“Agreement”	a supply agreement dated 15 October 2003 entered into between HOMEOSTYLE and LFJ
“Artfolio”	Artfolio Corporation, a company incorporated in Japan and is owned as to 84.02% and 15.98% by Softbank Finance and Softbank Internet Technology Fund No. 2, respectively. It is principally engaged in the marketing and distribution of Japanese contemporary and antique artworks in Japan
“associate(s)”	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 an ordinary resolution as set out in the EGM Notice at the EGM approving the Agreement and the Non-exempt Continuing Connected Transaction
“EGM”	the extraordinary general meeting of the Company to be held at Rear Portion of G/F, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong at 4 p.m. on 17 November 2003 for the purpose of considering and passing a resolution to approve the Non-exempt Continuing Connected Transactions as set out in the EGM Notice
“EGM Notice”	the notice convening the EGM set out on pages 28 to 29 of this circular

DEFINITIONS

“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
“GEM”	The Growth Enterprises Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM of the Stock Exchange
“Group”	the Company and its subsidiaries
“Hercules Capital”	Hercules Capital Limited, the independent financial adviser appointed by the Company, for the purpose of advising the Independent Board Committee in respect of the Non-exempt Continuing Connected Transactions
“HOMEOSTYLE”	HOMEOSTYLE Inc., a company incorporated in Japan with limited liability and having its registered office at 3rd Floor, D.B. Building, 1-4 Wakaba, Shinjuku-ku, Tokyo, Japan. HOMEOSTYLE is a connected person of the Company under the GEM Listing Rules
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“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, 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 and their respective associates
“Latest Practicable Date”	27 October 2003, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“LFJ”	Lai Fai Jewellery Trading Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company

DEFINITIONS

“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 31 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
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong
“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 Stock Exchange
“Softbank Finance”	Softbank Finance Corporation, a corporation incorporated in Japan 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.
“Softbank Funds”	Softbank Internet Technology Fund No. 2 and Softbank Internet Technology Fund No. 3, both of which are discretionary investment funds managed by Softbank Investment
“Softbank Investment”	Softbank Investment Corporation, a corporation incorporated in Japan and whose shares are listed on the First Session of the Tokyo Stock Exchange Inc.
“Sponsors”	collectively, (i) Celestial Capital Limited, a deemed licensed corporation for types 1 and 6 regulated activities under the SFO; and (ii) SBI E2-Capital (HK) Limited, a deemed licensed corporation for types 1, 4, 6 and 9 regulated activities under the SFO
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder(s)”	has the meaning ascribed to it in the GEM Listing Rules
“Term”	the term of the Agreement commencing from the Effective Date to 31 December 2005, both dates inclusive
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

LETTER FROM THE BOARD



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

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

Registered office:

Century Yard

Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

British West Indies

Principal Place of Business:

Rear Portion of Ground Floor

Grandview Garden

71-77 Pau Chung Street

Tokwawan

Kowloon

Hong Kong

31 October 2003

To the Shareholders

Dear Sir or Madam,

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

1. INTRODUCTION

Reference is made to the announcement of the Company dated 15 October 2003 in relation to the Non-exempt Continuing Connected Transactions and the Exempt Continuing Connected Transactions. Pursuant to the requirements of the GEM Listing Rules, the Company is required to seek Independent Shareholders' approval in relation to the Non-exempt Continuing Connected Transactions under the GEM Listing Rules.

LETTER FROM THE BOARD

The purpose of this circular is to provide the Shareholders with further information relating to the Continuing Connected Transactions, to set out the letter of advice of Hercules Capital to the Independent Board Committee, the recommendation and opinion of the Independent Board Committee in respect of the Non-exempt Continuing Connected Transactions and to seek your approval of the ordinary resolution as set out in the EGM Notice at the EGM.

2. BACKGROUND

The Agreement dated 15 October 2003.

Parties

- HOMEOSTYLE as buyer; and
- 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 may agree from time to time) made by HOMEOSTYLE during the Term 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 during the Term is determined based on (i) the historical sales value 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 valued at not more than HK\$6,000,000 in each 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.

LETTER FROM THE BOARD

- (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 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.

The Agreement will be in force for the duration of the Term 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, within the usual and ordinary course of business of the Group and fair and reasonable so far as the Shareholders as a whole are concerned.

3. 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 Japanese inbound tourists to Hong Kong.

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 Softbank Finance 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 sale and distribution of jewellery products in Japan, thereby commencing the process of marketing the Group’s brand name in the Japanese market.

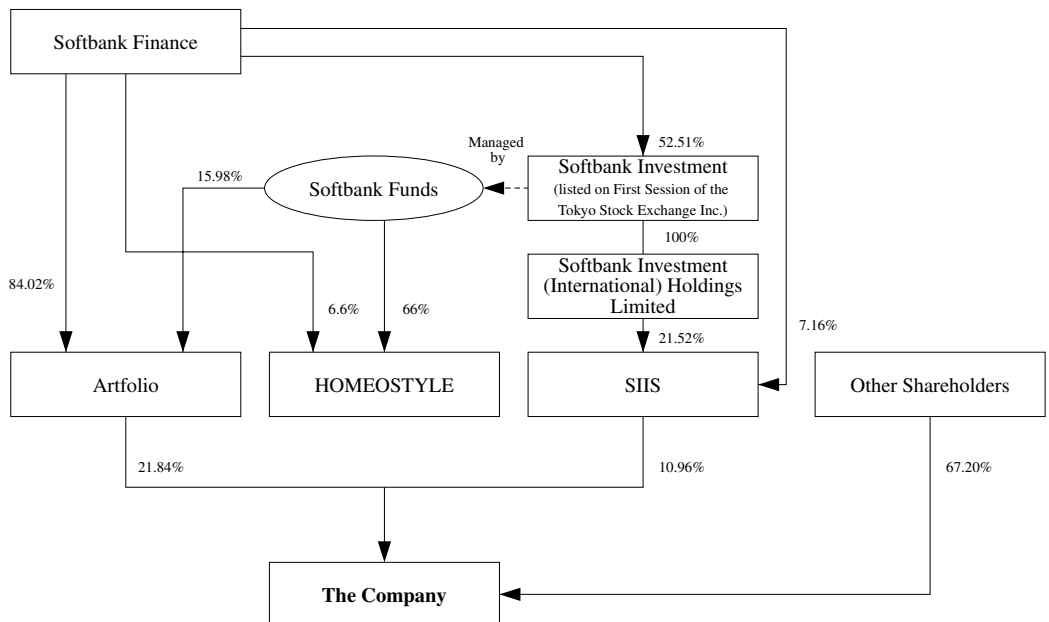
LETTER FROM THE BOARD

The Directors understand that since the commencement of its business, HOMEOSTYLE had contracted its jewellery products businesses at its retail outlets out to third parties. However, HOMEOSTYLE now intends to conduct such business on its own. 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 counterparty

As at the Latest Practicable Date, HOMEOSTYLE is held as to approximately 66% by Softbank Funds, which are managed by Softbank Investment, and which in turn is owned as to 52.51% by Softbank Finance. In addition, as at the Latest Practicable Date, 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 company directly or indirectly exercises or controls an aggregate 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 is therefore a connected person of the Company within the meaning set out in the GEM Listing Rules.

Shareholding structure of the Group



LETTER FROM THE BOARD

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, despatch of circulars to Shareholders and prior approval by the Independent Shareholders on each occasion when they arise. 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 Shareholders' prior approval on each occasion when they arise. Accordingly, the Company seeks the approval of the Independent Shareholders for the Non-exempt Continuing Connected Transactions entered into by the Group during the Term 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 shall be HK\$6,000,000. It 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 valued at not more than HK\$6,000,000 in each financial year of the Company ending 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 executive Directors believe the Group is at full production capacity at present. In order to fulfill purchase orders from HOMEOSTYLE pursuant to the Agreement, the production staff has to work overtime and additional costs of production will be incurred. Accordingly, the average costs of production of the financial year of the Company ended 31 December 2002 and additional costs of production together with the estimated mark-up in the value of jewellery products to be supplied by LFJ (and as LFJ sees fit), were also taken into account by the Group in determining the proposed cap at HK\$6,000,000.

The proposed cap in respect of its reasonable costs and expenses incurred from time to time in the promotion and marketing of the "Lai Fai" brand name and reimbursable by the Group to HOMEOSTYLE was determined primarily by reference to the historical figures of such activities.

LETTER FROM THE BOARD

4. 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 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:
 - i. in the ordinary and usual course of business of the Group;
 - ii. 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;
 - iii. in accordance with the terms of the Agreement; and
 - iv. on terms that are fair and reasonable insofar the Independent Shareholders are concerned;
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:
 - i. have received the approval of the Board;
 - ii. 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);
 - iii. have been entered into in accordance with the terms of the Agreement; and
 - iv. have not exceeded the annual cap as stated above; and

LETTER FROM THE BOARD

- v. 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;
5. the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the Directors and/or auditors will not be able to confirm the matters set out in paragraphs (1) and/or (2) respectively. The Company may have to re-comply with Rule 20.26 (3) and (4) and any other conditions the Stock Exchange considers appropriate;
6. under Rule 20.22 of the GEM Listing Rules, the Stock Exchange reserves the power to specify that an exemption may not apply to a particular transaction. The Stock Exchange may also require, at its discretion, that any other connected transaction be made conditional on Shareholders' approval and that the same requirements as in Rules 20.15 and 20.16 will apply; and
7. 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.

LETTER FROM THE BOARD

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

5. EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong at 4 p.m. on 17 November 2003 is set out on pages 28 to 29 of this circular at which an ordinary resolution will be proposed to approve the Non-exempt Continuing Connected Transactions by way of a poll. Each of Artfolio and SIIS, being substantial shareholders of the Company, respectively holds approximately 21.84% and 10.96% of the total issued share capital of the Company as at the Latest Practicable Date. Accordingly, Artfolio and SIIS and their respective associates will abstain from voting at the EGM in respect of the ordinary resolution.

The Independent Board Committee, comprising Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly, both independent non-executive Directors, have been appointed to advise the Independent Shareholders on whether or not the terms of the Non-exempt Continuing Connected Transactions including their proposed annual cap amount are fair and reasonable and are in the interests of the Independent Shareholders and the Company as a whole. Hercules Capital has been appointed to advise the Independent Board Committee in this regard.

A form of proxy for use at the EGM is enclosed. Whether or not you are able to attend the EGM in person, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return it to the Company's Hong Kong branch share registrar and transfer office, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event no later than 24 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude the Independent Shareholders from attending and voting in person at the EGM if they so wish.

LETTER FROM THE BOARD

6. RECOMMENDATION

Your attention is drawn to (a) the letter from the Independent Board Committee set out on page 13 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the Non-exempt Continuing Connected Transactions and (b) the letter from Hercules Capital set out on pages 14 to 20 of this circular which contains their recommendations to the Independent Board Committee in relation to the Non-exempt Continuing Connected Transactions, the principal factors and reasons considered by Hercules Capital in arriving at their recommendations.

The Independent Board Committee, having taken into account the advice of Hercules Capital, considered that the terms of the Non-exempt Continuing Connected Transactions including their annual cap amounts are fair and reasonable and are in the interest of the Independent Shareholders and the Company as a whole.

By order of the Board

Li Shui

Executive Chairman



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

31 October 2003

To the Independent Shareholders

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise the Independent Shareholders in respect of the Non-exempt Continuing Connected Transactions including their respective annual cap amounts, details of which are set out in the letter from the Board in the circular dated 31 October 2003 (the “Circular”, of which this letter forms part) to the Shareholders. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

Your attention is drawn to the advice of Hercules Capital in respect of the Non-exempt Continuing Connected Transactions including their annual cap amounts as set out in the letter from Hercules Capital in the Circular. Having taken into account the advice of Hercules Capital, we consider that the terms of the Non-exempt Continuing Connected Transactions including their annual cap amounts are fair and reasonable and are in the interest of the Independent Shareholders and the Company as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution as set out in the EGM Notice in relation to the Non-exempt Continuing Connected Transactions at the EGM.

Yours faithfully,

For and on behalf of

The Independent Board Committee

MAK Tak Cheong, Edmund CHE King Lun, Frankly

Independent Non-executive Directors

LETTER FROM HERCULES CAPITAL

The following is the text of the letter of advice prepared by Hercules Capital to the Independent Board Committee in respect of the Non-exempt Continuing Connected Transactions for incorporation in this Circular.

Hercules **Hercules Capital Limited**

1503 Ruttonjee House
11 Duddell Street
Central
Hong Kong

31 October 2003

*To the Independent Board Committee of
Lai Fai International Holdings Limited*

Dear Sirs,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the Non-exempt Continuing Connected Transactions, details of which are set out in the “Letter from the Board” contained in this circular dated 31 October 2003 to the Shareholders (the “Circular”) of which this letter forms part. Terms used in this letter have the same meanings as defined elsewhere in the circular unless the context otherwise requires and specifies.

The Non-exempt Continuing Connected Transactions will constitute non-exempt continuing connected transactions for the Company under Rule 20.26 of the GEM Listing Rules and are subject to the approval of the Independent Shareholders and other reporting requirements under Rule 20.34 to 20.36 of the GEM Listing Rules. Hercules Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee as to whether the terms of the Non-exempt Continuing Connected Transactions insofar as the Independent Shareholders are concerned are fair and reasonable and in the interest of the Shareholders as a whole.

In formulating our recommendations, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that all statements and representations made to us by the Directors and management of the Company or made or referred to in the Circular are true and accurate at

LETTER FROM HERCULES CAPITAL

the time they were made and as at the date of the Circular and will continue to be true at the date of the EGM. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and no material facts have been omitted from the information supplied and opinions expressed. We have discussed with the Directors with respect to the terms and reasons of, and basis of consideration for the Non-exempt Continuing Connected Transactions and relied on such information and consider that we have been provided with and have reviewed sufficient information to reach an informed view on the terms of the Non-exempt Continuing Connected Transactions and to justify our reliance on the accuracy of the information contained in the Circular in order to provide a reasonable basis for our recommendation. We have no reason to suspect that any material information has been withheld by the Directors or is misleading, untrue or inaccurate. We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs of the Group and the related subjects and parties of the Non-exempt Continuing Connected Transactions.

As at the Latest Practicable Date, HOMEOSTYLE is held as to approximately 66% by Softbank Funds, which are managed by Softbank Investment, and which in turn is owned as to 52.51% by Softbank Finance (please refer to the diagram in the Letter from the Board on page 7). Also, 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 company directly or indirectly exercises or controls the an aggregate of 30% or more of the voting power at general meetings or the composition of a majority of board of directors of HOMEOSTYLE. Each of HOMEOSTYLE and the Company is, therefore, a connected person (as defined in the GEM Listing Rules) of the other.

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in assessing the Non-exempt Continuing Connected Transactions and arriving at our opinion to the Independent Board Committee are set out as follows.

(I) Background

On 15 October 2003, LFJ, a subsidiary of the Company, entered into the Agreement with HOMEOSTYLE, pursuant to which HOMEOSTYLE will purchase jewellery products from LFJ, 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, which constitute the Non-exempt Continuing Connected Transactions.

LETTER FROM HERCULES CAPITAL

As regards the promotion and marketing of jewellery products of the “Lai Fai” brand name at HOMEOSTYLE’s 39 retail outlets during the term 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, which constitute the Exempt Continuing Connected Transactions.

(II) Reasons for the Non-exempt Continuing Connected Transactions

The Group is based in Hong Kong and engaged in manufacturing, trading and retailing of jewellery products with a focus on inbound tourists to Hong Kong from Japan. As described in the Company’s prospectus dated 11 February 2003 under the section headed “Business objectives and implementation plan”, the Group intends to build on its relationship with the Softbank Finance in Japan to expand the Group’s geographical coverage and to explore sales opportunities in potential new markets such as Japan.

HOMEOSTYLE, being a retailer of cosmetics, fashion and jewellery products in Japan, has a well-established distribution network of 39 outlets across the major cities. The Agreement represents an opportunity for the Group to leverage on the business networks and relationships of HOMEOSTYLE to exploit potential business opportunities in sales and distribution of jewellery products in Japan and is in line with the Company’s existing businesses. Pursuant to the Agreement, HOMEOSTYLE will also 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 provide by LFJ under the Agreement at any of the HOMEOSTYLE’s 39 retail outlets. The Board considers that such arrangement, being the Exempt Continuing Connected Transactions, will not only increase the Group’s revenue to be generated from such sales to HOMEOSTYLE, but also provides the Company with a further opportunity to expand its presence and increase consumer awareness of its jewellery products in Japan.

(III) Terms of the Non-exempt Continuing Connected Transactions

The proposed annual cap

As stated in the Letter from the Board in the Circular, the aggregate value of all the purchases (net of the value of the Products returned by HOMEOSTYLE to LFJ as 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 the proposed annual cap of HK\$6,000,000 for each of the financial years of the Company ending on 31 December 2005 (the “Cap”).

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As advised by the Directors, the Cap amount has been 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 in each financial year of the Company ending on 31 December 2005 (the “LOI”) 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 thinks fit) (the “Estimated Mark-Up”).

Under the Agreement, the price payable by HOMEOSTYLE to LFJ under each purchase order for the Products shall be agreed between both parties 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 production, packaging, carriage and freight insurance of the Products and the Estimated Mark-Up.

Payment terms

LFJ will bill HOMEOSTYLE at the time of shipment of the Products. The parties agree that 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.

In relation to the bases of the Cap, we have reviewed (i) the Agreement, (ii) the historical sales and sales mix of the jewellery products of HOMEOSTYLE; (iii) the LOI, and (iv) the computation basis of 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 to HOMEOSTYLE (and as LFJ thinks fit) and the relevant assumptions made thereof. On the basis of the assumptions made by the Directors, we are of the opinion that the above computation for which the Directors are solely responsible, has been made after due and careful enquiry and consideration.

In respect of the Estimated Mark-Up, we have reviewed the operating profit margin of another listed company engaging in similar businesses - Ming Fung Jewellery Group Limited (#860) (“Ming Fung”), which designs, manufactures, and sells a broad range of gem-set jewellery products on ODM (Original Design Manufacturing) or OEM (Original Equipment Manufacturing) basis. We have compared the Estimated Mark-Up with Ming Fung’s operating profit margin for sales to external customers. Based on the figures in 2003 interim report and 2002 annual report of Ming Fung, we are of the view that the Estimated Mark-Up is comparable to the prevailing market range.

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Apart from Ming Fung, we are unable to locate any other jewellery-related listed companies which have disclosed their mark-up relating purely to manufacturing and wholesale business in their annual reports for comparison purposes. Similarly, we are unable to locate any other jewellery-related listed companies which have disclosed their payment terms relating purely to manufacturing and wholesale business in their annual reports for comparison purposes.

As the Group has not previously carried on wholesale businesses with independent third parties, our assumptions had been based upon the information and confirmation regarding the prevailing market range provided by the Group. In addition, the Group has confirmed that the Estimated Mark-Up and payment terms to be offered by the Group to HOMEOSTYLE are comparable to the prevailing market range.

Based on the above information, we consider the terms of the Agreement (including the Cap amount) are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interest of the Shareholders as a whole.

(IV) Annual review of the Non-exempt Continuing Connected Transactions

In compliance with the annual review requirements under Chapter 20 of the GEM Listing Rules, in addition to obtaining Independent Shareholders' approval for the Non-exempt Continuing Connected Transactions and the Cap at the EGM, the Company will comply with the following during the term of the Agreement:

1. the Non-exempt Continuing Connected Transactions would not exceed the Cap in each of the financial years until 31 December 2005 of the Company during the term of the Agreement;
2. the independent non-executive Directors shall review the Non-exempt Continuing Connected Transactions annually and confirm in the Company's annual report for the year in question that the Non-exempt Continuing Connected Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Company;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the terms of the Agreement;

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- (d) on terms that are fair and reasonable insofar the Independent Shareholders are concerned;
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), 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 policies of the Group if those transactions involve provision of goods or services by the Group (where appropriate);
 - (c) have been entered into in accordance with the terms of the Agreement; and
 - (d) have not exceeded the Cap of HK\$6,000,000; 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. undertakes to the Stock Exchange to allow the auditors of the Company full access to their records for the purpose of review of the Non-exempt Continuing Connected Transactions;
5. 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;
6. the Company shall promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive directors and/or the directors and/or auditors will not be able to confirm the matters set out in paragraphs (1) and/or (2) respectively. The Company may have to re-comply with Rule 20.26 (3) and (4) and any other conditions the Exchange considers appropriate;
7. under Rule 20.22, the Stock Exchange reserves the power to specify that an exemption may not apply to a particular transaction. The Stock Exchange may also require, at its discretion, that any other connected transaction be made conditional on Shareholders' approval and that the same requirements as in Rule 20.15 and 20.16 will apply; and

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8. under Rule 20.30, where the aggregate consideration of the relevant Non-exempt Continuing Connected Transactions in any financial years to 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 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 annual report whether or not the Company should continue with the Non-exempt Continuing Connected Transactions.

We are of the view that in the event that the above measures are properly carried out by the Directors, the Independent Shareholders' interests will be protected.

(V) Subsequent Changes

If there are any changes in any terms of the Agreement for the Non-exempt Continuing Connected Transactions or the relevant caps 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.

RECOMMENDATION

Having considered the abovementioned principal factors and reasons, we consider the terms of the Non-exempt Continuing Connected Transactions are on normal commercial terms, fair and reasonable insofar as the Independent Shareholders are concerned and in the interest of the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Non-exempt Continuing Connected Transactions to be proposed at the upcoming EGM.

Yours faithfully,
For and on behalf of
Hercules Capital Limited
Louis Koo
Managing Director

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the 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:

- a. the information contained in this circular is accurate and complete in all material respects and not misleading;
- b. there are no other matters the omission of which would make any statement in this circular misleading; and
- c. all opinions expressed in this circular have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

2. DISCLOSURE OF INTERESTS

A. As at the Latest Practicable Date, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors, were as follows:

1. Long positions in shares of the Company

Name of directors	Number of ordinary shares			Total	% of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr. Li Shui (<i>Note</i>)	—	—	51,456,000	51,456,000	40.20%

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% and Mr. Lee You as to 8.8%. Both Mr. Li Shui and Mr. Lee You are executive directors of the Company and directors of Best Perfect.

2. Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Scheme of the Company adopted on 5 February 2003, certain Directors were granted share options to subscribe for shares of the Company, details of which as at the Latest Practicable Date were as follows:

	Date of grant	Exercise price per share	Exercisable period	Practicable Date	Number of share options outstanding as at the Latest Practicable Date	Percentage of the issued share capital of the Company as at the Latest Practicable Date
Mr. Li Shui (<i>Note 1</i>)	26 February 2003	HK\$0.10	<i>Note 2</i>		4,010,000	3.13
Mr. Yoshitaka Kitao	26 February 2003	HK\$0.10	<i>Note 2</i>		1,300,000	1.02
Mr. Yu Kam Kee, Lawrence	26 February 2003	HK\$0.10	<i>Note 2</i>		500,000	0.39
Mr. Ty Siao Kian, George	26 February 2003	HK\$0.10	<i>Note 2</i>		500,000	0.39
Mr. Che King Lun, Frankly	26 February 2003	HK\$0.10	<i>Note 2</i>		400,000	0.31
Mr. Mak Tak Cheong, Edmund	26 February 2003	HK\$0.10	<i>Note 2</i>		200,000	0.16

Notes :

- The options were granted to Best Perfect which 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 was deemed to be interested in the options to subscribe for Shares in the Company held by Best Perfect under the SFO.
- (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 12 months after 26 February 2003 (the "First Exercise Period") and (ii) the remainder 50% of the total number of options granted at any time during the period of 1 year after the end of the First Exercise Period.

As at the Latest Practicable Date and save as disclosed above, none of the Directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by Directors.

- B. As at the Latest Practicable Date, the persons (not being Directors and the chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

1. Long position in shares of the Company

Name of shareholders	Notes	Capacity	Nature of interests	Number of ordinary shares	% of issued share capital
Best Perfect	1	Beneficial owner	Corporate	51,456,000	40.20%
Mr. Li Shui	1	—	Other	51,456,000	40.20%
Li So Kuen	2	—	Other	51,456,000	40.20%
Artfolio	3	Beneficial owner	Corporate	27,955,200	21.84%
SIIS	4	Beneficial owner	Corporate	14,028,800	10.96%
Softbank Finance	4	—	Other	41,984,000	32.80%

Notes:

- 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 is deemed to be interested in the same block of shares held by Best Perfect under the SFO.
- Ms. Li So Kuen is deemed to be interested in the 51,456,000 shares in which Mr. Li Shui, her spouse who is a director of the Company is interested.

3. Artfolio is beneficially owned as to 84.02% by Softbank Finance. Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by SIIS under the SFO.
4. SIIS is beneficially owned as to 21.52% by Softbank Investment (International) Holdings Limited which is wholly owned by Softbank Investment.

As Softbank Investment is beneficially owned as to approximately 52.51% by Softbank Finance which in turns directly holds approximately 7.16% of the share capital of SIIS. Softbank Finance is taken to be interested in the shares in the Company held by SIIS under the SFO in addition to those shares in the Company held by Artfolio as detailed in note (3) above.

2. Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Scheme of the Company adopted on 5 February 2003, share options in respect of 4,010,000 underlying shares of the Company were granted to Best Perfect, details of which were disclosed in sub-paragraph (A)(2) of the paragraph headed “Disclosure of Interests”. As at the Latest Practicable Date, Best Perfect was beneficially owned as to 91.2% and 8.8% by Mr. Li Shui and Mr. Lee You respectively.

Further, by virtue of Mr. Li Shui’s interests in Best Perfect and therefore deemed interest in the Company, Ms. Li So Kuen, his spouse, was also taken to be interested in the above-mentioned options in respect of 4,010,000 underlying shares of the Company granted to Best Perfect under the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

3. DIRECTORS’ INTERESTS IN CONTRACTS

- (a) Each of the executive Directors has entered into a service contract with the Company for an initial term of 3 years commencing on 26 February 2003 which may continue thereafter until terminated by either party thereto giving to the other party not less than 3 months’ prior written notice. Save as disclosed herein, none of the Directors has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

- (b) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2002, the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group.
- (c) Save as disclosed herein, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular and which is significant in relation to the business of the Group.

4. MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position of the Company since 31 December 2002, the date to which the latest published audited financial statements of the Group were made up.

5. EXPERTS

- (a) The following is the qualification of the expert who has given its opinion or advice which are contained in this circular:

Name	Qualification
Hercules Capital Limited	a licensed corporation for type 6 regulated activities under the SFO

- (b) As at the Latest Practicable Date, Hercules Capital was not interested beneficially or non-beneficially in any shares in the Company or any member of the Group or any right (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.
- (c) Hercules Capital has given and has not withdrawn its written consents to the issue of this circular with inclusion of its letter dated 31 October 2003 and the references to its name include herein in the form and context in which it was included.

6. SPONSORS' INTEREST

As at the Latest Practicable Date, none of the Sponsors or any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the shares of the Company or any members of the Group or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company or any members of the Group as at the Latest Practicable Date other than the following in relation to SBI E2-Capital (HK) Limited:

- (i) the shareholding interests of Artfolio and SIIS in the Company;
- (ii) shareholdings and/or interests in companies or joint ventures which Softbank Finance and its subsidiaries may co-invest with the Group under the Softbank Memorandum of Understanding dated 9 February 2002 or which Softbank Finance, Softbank Investment 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. Yu Kam Kee, Lawrence, who is chairman of SIIS, under the Pre-IPO Share Option Scheme to subscribe for shares of the Company as disclosed in this circular.

Pursuant to the agreement dated 10 February 2003 entered with the Company, the Sponsors received, and will receive, fees for acting as the Company's retained sponsors until 31 December 2005 or until such agreement is terminated upon the terms and conditions set out therein.

7. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the principal place of business of the Company up to and including 17 November 2003:

- (a) the Agreement;
- (b) the non-binding letter of intent issued by HOMEOSTYLE to the Company as referred to in item (ii) in the paragraph headed "Proposed annual cap" in the section headed "Letter from the Board" in the circular;
- (c) the letter from Hercules Capital, the text of which as set out on pages 14 to 20 of the circular;

- (d) the written consent from Hercules Capital referred to in paragraph 5(d) of this appendix; and
- (e) the Directors' service contracts as referred to in sub-paragraph (a) under the paragraph headed "Directors' Interests in Contracts".

8. MISCELLANEOUS

In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

NOTICE OF EXTRAORDINARY GENERAL MEETING



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “Meeting”) of Lai Fai International Holdings Limited (the “Company”) will be held at Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong, on 17 November 2003 at 4 p.m. for the purpose of considering and, if thought fit, passing the following resolution (with or without modifications) as an ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** the supply agreement dated 15 October 2003 entered into between HOMEOSTYLE Inc. and Lai Fai Jewellery Trading Limited, a wholly owned subsidiary of the Company (the “Agreement”) and any and all transactions contemplated therein be and are hereby approved, that the directors of the Company and/or of Lai Fai Jewellery Trading Limited be and are hereby authorised to enter into the Non-exempt Continuing Connected Transactions as defined and more particularly described in the circular to the shareholders of the Company dated 31 October 2003 (the “Circular”) provided that the annual cap in respect of the aggregate consideration payable to the Company and/or its subsidiaries under the Agreement in each financial year during the term of the Agreement (commencing from the date on which this resolution shall have been passed by shareholders of the Company entitled to vote at an extraordinary general meeting of the Company to be held on 17 November 2003 to 31 December 2005), unless otherwise terminated) shall not exceed HK\$6,000,000, that the Non-exempt Continuing Connected Transactions are conducted in accordance with the conditions mentioned under the section headed “Conditions” in “Letter from the Board” set out in the Circular and that any director of the Company be and is hereby authorized on behalf of the Company to sign, seal, execute, perfect and deliver all such documents and do all such deeds, acts matters and things as he may in his discretion consider necessary or desirable for the purposes of or in connection with the implementation of the Agreement and any and all the Non-exempt Continuing Connected Transactions.”

By Order of the Board

Lai Fai International Holdings Limited

Lam King Pui

Company Secretary

Hong Kong, 31 October 2003

NOTICE OF EXTRAORDINARY GENERAL MEETING

Registered office:

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

Principal Place of Business:

Rear Portion of Ground Floor
Grandview Garden
71-77 Pau Chung Street
Tokwawan
Kowloon
Hong Kong

Notes:

- (1) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited at the Company's Hong Kong branch share registrar, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 24 hours before the time appointed for holding of the Meeting or adjournment thereof at which the person named in the instrument proposes to vote or and in default thereof the form of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiry of 12 months from the date of its execution.
- (3) Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.