



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

THIRD QUARTERLY REPORT

FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 2003

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This report, 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 GEM of the Stock Exchange 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.

HIGHLIGHTS

- Although turnover as compared to the same periods of last year for the 3 months and 9 months ended 30th September 2003 had decreased by 51% and 53% to HK\$6,190,000 and HK\$15,996,000 respectively, turnover in the current quarter improved significantly by about 12 times when compared with previous quarter of HK\$473,000, the period under which tourism was most severely affected by the Severe Acute Respiratory Syndrome (“SARS”).
- Similar magnitude of decrement in gross profit by 63% and 60% to HK\$3,684,000 and HK\$10,250,000 for the 3 months and 9 months ended 30th September 2003 respectively were recorded when compared with the last corresponding periods. Nevertheless, the Group has stepped out from the gross loss position of HK\$149,000 in the previous quarter to the gross profit position in the current quarter of HK\$3,684,000.
- As the Group’s sales operation was only about one half of those in the same periods of last year, irrespective of savings in general & administrative costs in the current quarter under review, the Group has still sustained net loss from ordinary activities attributable to shareholders for about HK\$852,000 for the 3 months ended 30th September 2003. However, this scale of net loss was greatly alleviated from the previous quarter net loss of HK\$2,461,000.
- The Group continues to maintain zero gearing ratio and has maintained cash & bank balances of approximately HK\$15.9 million as at 30th September 2003 (30th June 2003: HK\$13.8 million).
- Loss per shares were 0.666 HK cent and 2.194 HK cents respectively for the 3 months and 9 months ended 30th September 2003 respectively.
- The Board does not recommend the payment of an interim dividend for the 9 months ended 30th September 2003.

THIRD QUARTERLY RESULTS

The board of directors (the “Board”) of Lai Fai International Holdings Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the 3 months and 9 months ended 30th September 2003, together with the comparative unaudited figures for the corresponding periods in 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

3 months and 9 months ended 30th September 2003

| | Notes | For the 3 months ended 30th September | | For the 9 months ended 30th September | |
|--|-------|--|------------------|--|------------------|
| | | 2003 HK\$'000 | 2002 HK\$'000 | 2003 HK\$'000 | 2002 HK\$'000 |
| Turnover | 3 | 6,190 | 12,510 | 15,996 | 33,968 |
| Cost of sales | | (2,506) | (2,425) | (5,746) | (8,421) |
| Gross profit | | 3,684 | 10,085 | 10,250 | 25,547 |
| Other revenue and gains | | 24 | 33 | 73 | 118 |
| Selling and distribution costs | | (1,985) | (3,213) | (5,462) | (9,432) |
| General and administrative expenses | | (2,570) | (2,716) | (7,533) | (7,409) |
| (Loss)/Profit from operating activities | | (847) | 4,189 | (2,672) | 8,824 |
| Finance cost | | (5) | (8) | (21) | (23) |
| (Loss)/Profit before tax | | (852) | 4,181 | (2,693) | 8,801 |
| Tax | 4 | 0 | (1,273) | 0 | (1,408) |
| Net (loss)/profit from ordinary activities attributable to shareholders | | (852) | 2,908 | (2,693) | 7,393 |
| Dividend — special/interim dividend | 5 | 0 | (2,300) | (4,697) | (2,300) |
| (Loss)/earnings per share | 6 | | | | |
| — Basic, HK cents | | (0.666) | 2.840 | (2.194) | 7.220 |
| — Diluted, HK cents | | (0.632) | N/A | (2.100) | N/A |

Notes:

1. Group Reorganisation and Basis of Presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6th September 2002 under the Companies Law of the Cayman Islands. Pursuant to a 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 5th February 2003 (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group. Further details of the Group Reorganisation are set out in the prospectus of the Company dated 11th February 2003 (the "Prospectus"). The shares of the Company were listed on the GEM of the Stock Exchange on 26th February 2003.

The unaudited condensed consolidated results of the Group have been prepared using the merger basis of accounting. Under this basis, the Company has been accounted for as the holding company of its subsidiaries acquired through the Group Reorganisation for both periods presented, rather than from the date of their acquisition through the Group Reorganisation on 5th February 2003. Accordingly, the unaudited condensed consolidated results of the Group for the 9 months ended 30th September 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1st January 2002 or since their respective dates of incorporation, where this is a shorter period.

The unaudited condensed consolidated results have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee. The Group's unaudited condensed consolidated results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted in preparing the unaudited condensed consolidated results for the 3 months and 9 months ended 30th September 2003 and 2002 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2002.

All significant intra-group transactions have been eliminated on consolidation.

SSAP 12 (Revised) "Income Taxes"

The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods.

2. Segment Information

The Company is an investment holding company and the principal activities of the Group are the sourcing, production, retail and wholesale of jewellery products in Hong Kong. During the periods under review, 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.

3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

4. Tax

No provision for Hong Kong profits tax was made for the 9 months ended 30th September 2003 as the Group had no estimated assessable profit in that period.

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the 3 months and 9 months ended 30th September 2002.

There is no significant unprovided deferred taxation during the periods under review.

5. Dividend

Other than a special dividend proposed by the Board at a meeting on 27th March 2003 and approved by the Company's shareholders at the annual general meeting on 30th April 2003 for which the payment was made on 12th May 2003 for a special dividend of HK3.67 cents per share for the year ending 31st December 2003 amounting in aggregate to HK\$4,697,600 to the Company's shareholders whose names appeared on the register of members of the Company on 30th April 2003, the Board does not recommend an interim dividend for the 9 months ended 30th September 2003 (9 months ended 30th September 2002: HK\$2,300,000).

6. Earnings Per Share

The calculation of basic loss per share for the 3 months and 9 months ended 30th September 2003 was based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$852,000 and HK\$2,693,000 respectively (3 months and 9 months ended 30th September 2002: profits of HK\$2,908,000 and HK\$7,393,000) divided by the weighted average number of 128,000,000 and 122,748,718 (3 months and 9 months ended 30th September 2002: 102,400,000) shares respectively deemed to be in issue throughout the periods.

No diluted earnings per share has been presented for the 3 months and 9 months ended 30th September 2002, as the Company did not have any dilutive potential ordinary shares.

The calculation of diluted loss per share for the 3 months and 9 months ended 30th September 2003 was based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$852,000 and HK\$2,693,000 respectively. The weighted average number of ordinary shares used in the calculation are 134,823,529 and 128,236,600, comprising 128,000,000 and 122,748,718 ordinary

shares in issue during the 3 months and 9 months ended 30th September 2003 respectively, as used in the basic loss per share calculation; and the weighted average of 6,823,529 and 5,487,882 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the 3 months and 9 months ended 30th September 2003 respectively.

7. Movement on Reserves

| | (Unaudited) Share Premium <i>HK\$'000</i> | (Unaudited) Contributed Surplus <i>HK\$'000</i> | (Unaudited) Retained Earnings <i>HK\$'000</i> | (Unaudited) Total <i>HK\$'000</i> |
|---|--|--|--|---|
| At 1st January 2002 | — | 2,999 | 4,383 | 7,382 |
| Arising from the Group Reorganisation | — | 18,178 | — | 18,178 |
| Net profit from ordinary activities attributable to shareholders for the period | — | — | 7,393 | 7,393 |
| Interim dividend | — | — | (2,300) | (2,300) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30th September 2002 | — | 21,177 | 9,476 | 30,653 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 1st January 2003 | — | 21,177 | 12,514 | 33,691 |
| Arising on placement of 25.6 million new shares | 23,040 | — | — | 23,040 |
| Capitalisation issue | (10,239) | — | — | (10,239) |
| Share issue expenses | (9,138) | — | — | (9,138) |
| Special dividend of HK3.67 cents per share | — | — | (4,697) | (4,697) |
| Net loss from ordinary activities attributable to shareholders for the period | — | — | (2,693) | (2,693) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 30th September 2003 | <u>3,663</u> | <u>21,177</u> | <u>5,124</u> | <u>29,964</u> |

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Since the launching of numerous economy rebuilding events by the Hong Kong government, tourism demonstrated a revival momentum from late July 2003 after SARS. The visit by the football club Real Madrid, the Musical Fireworks Contest along the harbour side and the Harbour Festival Music Show were all international events attracting tourists all over the world to visit Hong Kong again.

The total number of tourists visiting Hong Kong in the 3rd quarter of 2003 was about 4.4 million, which has overtaken the number in the same quarter of last year for 4.2 million. Visitors from Mainland China demonstrated a strong growth of 28.4% in September 2003 when compared with the same month in last year. The increase was mainly attributed to the recent visa relaxations policy for individual travelers and the Golden Week Holiday effect on the China's National Day. However, tourists visiting Hong Kong from Asian, European, Middle East and American countries are still far from full recovery and have diminished for over 30% when compared with the same quarter in last year. It is believed that the rebound in number of visitors from these countries will take some time to regain the full pre-SARS levels.

Turnover

The Group is principally engaged in the manufacturing and retailing of jewellery products appealing to Japanese tourists who are substantially referred to the Group 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 renewable annually thereafter.

Although the total number of visitors in the 3rd quarter of 2003 has overtaken those in 2002, the number of visitors from Japan are still stagnant and far from full restoration to the pre-SARS level (see table below for information extracted from the Hong Kong Tourism Board). However, we see gradual trend of picking up in Japanese visitors to Hong Kong in the recent months.

| Number of Visitors from Japan | Year 2003 | + / (-) | Year 2002 |
|--------------------------------------|------------------|----------------|------------------|
| July | 59,442 | | 110,209 |
| August | 77,871 | | 121,978 |
| September | 94,964 | | 130,013 |
| | <u>232,277</u> | (36%) | <u>362,200</u> |
| January to September | <u>605,260</u> | (41%) | <u>1,026,020</u> |

Turnover as compared with the same periods of last year for the 3 months and 9 months ended 30th September 2003 has dropped by approximately 51% and 53% to HK\$6,190,000 and HK\$15,996,000 (3 months and 9 months ended 30th September 2002: HK\$12,510,000 and HK\$33,968,000) respectively due to the aftermath of SARS. Nonetheless, there was a significant improvement in turnover for about 12 times than those in previous quarter of HK\$473,000, the period under which the Group was most severely affected by the SARS.

Gross Profit

Similar magnitude of decrement in gross profit for about 63% and 60% were recorded when compared with the same periods of last year for the 3 months and 9 months ended 30th September 2003, but the Group has stepped out from the gross loss position of HK\$149,000 in the previous quarter to the gross profit position in the current quarter of HK\$3,684,000.

Net Loss from Ordinary Activities Attributable to Shareholders

As the Group's sales operation for the 3 months and 9 months ended 30th September 2003 was only about one half of those in last year, irrespective of savings in general & administrative costs in the current quarter, the Group has still sustained net loss from ordinary activities attributable to shareholders for about HK\$852,000 for the 3 months ended 30th September 2003.

However, the scale of net loss was greatly reduced from the previous quarter net loss of HK\$2,461,000.

BUSINESS OUTLOOK AND PROSPECT

Hong Kong

Tourists' confidence in visiting Hong Kong is restoring and can be evidenced by the recent growth in number of visitors to Hong Kong.

Although the number of Japanese visitors only show a gradual growth in the recent months, the Group believes such recovery is more healthy and long-lasting.

Moreover, Hong Kong is famous for its cultural and scenery attractions all over the world and is praised as the 50 "must-go" places for life. Together with the whole-hearted efforts by the Hong Kong Government and the Hong Kong Tourism Board in organizing splendid attractions to stimulate tourism, the Group has confidence that the sales operation will return to normal in the coming year.

Japan

According to the information provided in the section headed “Statement of Business Objective” in the Company’s prospectus dated 11th February 2003 (the “Prospectus”), a feasibility study on the Japan local market should have been completed before 30th June 2003 for the Group’s management decision to expand its business to Japan.

However, as mentioned in the interim report under the section “Business Objectives Review”, the progress was hindered by the policy of quarantine imposed on Hong Kong travellers by many countries including Japan, while Hong Kong was still on the list of SARS infected areas as promulgated by the World Health Organization during the period from April to June 2003. In addition, there were several infection cases of SARS inside the flight cabinet, and for safety reason, the directors were unable to pay visit to Japan in the previous quarter for the study.

Such study was completed in the current quarter for which the Group has concluded a supply agreement with HOMEOSTYLE Inc. (“HOMEOSTYLE”), a retailer of cosmetics, fashion and jewellery products with well-established distribution network of 39 outlets across major cities in Japan after a series of discussions and negotiations.

The supply agreement was entered into by Lai Fai Jewellery Trading Limited (“LFJ”), a wholly-owned subsidiary of the Company and HOMEOSTYLE on 15th October 2003 (the “Agreement”) for which LFJ agreed to sell and HOMEOSTYLE agreed to buy with an aggregate value of all the net purchases 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 31st December 2005.

HOMEOSTYLE is an associate of Artfolio Corporation, a major shareholder of the Company, and therefore is a connected person of the Company within the meaning as set out in the GEM Listing Rules. Since the above transaction is a non-exempt continuing connected transaction requiring approval by the Company’s shareholders in the general meeting, pursuant to Rules 20.35 and 20.36 of the GEM Listing Rules, the Company had made disclosure of the above non-exempt continuing connected transactions by way of announcement at the GEM website on 15th October 2003 and a circular in this regard was despatched on 31st October 2003 to the Company’s shareholders for their approval in the extraordinary general meeting (the “EGM”) to be held at 4:00 p.m. on 17th November 2003 at the Rear Portion of G/F., Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong.

The result for approving the above resolutions at the EGM will be made by way of announcement at the GEM website on 17th November 2003.

China

In addition to the above, the Group has been keeping a close eye on the Close Economic Partnership Arrangement (“CEPA”) for which the Group will have competitive edge in distributing its jewellery products to Mainland China from 1st January 2004 onwards.

The import tariff for jewellery products that are made of precious metal and stones, which is presently set at 26.7% to 35%, will be reduced to zero on 1st January 2004 for those Hong Kong merchants who can meet the CEPA rules of origin requirements.

It was the Group's intention to expand its distribution network of jewellery products to Mainland China in 2004/2005 as set out in the business objectives in the Prospectus. Depending the pace of exploration of business opportunities in Mainland China, CEPA may be an accelerator for speeding up the Group's expansion to this huge market.

Looking ahead, Disney Land will be opened in Hong Kong at 2005, Olympic Games will be hosted by Beijing at 2008 and the East Asian Games will be hosted by Hong Kong at 2009. Hong Kong will definitely be the world's attraction and an important gateway for travel to Mainland China. With so many business opportunities lying ahead, the Board is optimistic about the overall results of the Group in coming years.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2003, the Group did not have any bank borrowings except for a finance lease payable of HK\$75,000. On the other hand, the Group had cash and bank balances of HK\$15.9 million as at 30th September 2003. In this regard, the Group's gearing ratio is zero (net debt to shareholders' fund).

CAPITAL STRUCTURE

Since the listing of the Company's shares on the GEM of the Stock Exchange on 26th 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. Foreign currencies receipts are converted into Hong Kong dollars and banked in at the next banking day to minimize foreign exchange risks.

SIGNIFICANT INVESTMENTS

There was no significant investment during the period.

MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS

Except for those disclosed in the Prospectus, the Company and the Group had no material acquisitions or disposals nor plans for material investments or capital assets.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

For the nine months ended 30th September 2003, approximately 73% 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%, 19% and 7%, respectively for the 9 months ended 30th September 2003. The Group generally charges a small premium over the market exchange rate if the customer pays in Yen, and converts the Yen receipts to Hong Kong dollars on the next banking day. As such, the Group faces minimal foreign exchange risks.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September 2003, 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 Securities and Futures Ordinance ("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:

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.

Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Scheme of the Company adopted on 5th February 2003, certain Directors were granted share options to subscribe for shares of the Company, details of which as at 30th September 2003 were as follows:

| | Date of grant | Exercise price per share | Exercisable period | Number of share options outstanding as at 30th September 2003 | Percentage of the issued share capital of the Company as at 30th September 2003 |
|-------------------------------|--------------------|--------------------------|--------------------|---|---|
| Mr. Li Shui (<i>Note 1</i>) | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 4,010,000 | 3.13 |
| Mr. Yoshitaka Kitao | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 1,300,000 | 1.02 |
| Mr. Yu Kam Kee, Lawrence | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 500,000 | 0.39 |
| Mr. Ty Siao Kian, George | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 500,000 | 0.39 |
| Mr. Che King Lun, Frankly | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 400,000 | 0.31 |
| Mr. Mak Tak Cheong, Edmund | 26th February 2003 | HK\$0.10 | <i>Note 2</i> | 200,000 | 0.16 |

Notes:

1. 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.
2. (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 26th 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.

Save as disclosed above, as at 30th September 2003, 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.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the directors or chief executive of the Company are aware, as at 30th September 2003, 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:

Long position in shares of the Company

| Name of shareholders | Notes | Capacity | Nature of interest | 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% |
| Ms. Li So Kuen | 2 | — | Other | 51,456,000 | 40.20% |
| Artfolio | 3 | Beneficial owner | Corporate | 27,955,200 | 21.84% |
| Softbank Investment International (Strategic) Limited (“SIIS”) | 4 | Beneficial owner | Corporate | 14,028,800 | 10.96% |
| Softbank Investment (International) Holdings Limited (“Softbank Holdings”) | 4 | — | Other | 14,028,800 | 10.96% |
| Softbank Investment Corporation (“Softbank Investment”) | 4 | — | Other | 14,028,800 | 10.96% |
| Softbank Finance Corporation (“Softbank Finance”) | 3 & 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 Artfolio under the SFO.
4. SIIS is beneficially owned as to 37.29% by Softbank Holdings. Accordingly, Softbank Holdings shall be deemed to be interested in the same block of shares held by SIIS under the SFO.

Softbank Holdings is wholly owned by Softbank Investment. Accordingly, Softbank Investment shall be deemed to be interested in the same block of shares held by SIIS under the SFO.

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 SFO, in addition to those shares owned by Artfolio as detailed in note (3) above.

Subsequent to the 9 months period ended 30th September 2003, pursuant to an announcement of SIIS dated 4th November 2003, all of the equity interests in SIIS as held by Softbank Holdings and Softbank Finance have been disposed of by that date. Accordingly, SIIS is no longer associated with Softbank Holdings, Softbank Investment and Softbank Finance.

Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Scheme of the Company adopted on 5th 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 the paragraph headed **“DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES”**. As at 30th September 2003, 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 share 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 30th September 2003, 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.

PURCHASE, REDEMPTION OF SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the 9 months ended 30th September 2003.

COMPETING INTEREST

Saved as those disclosed in the Prospectus, as at 30th September 2003, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

SPONSORS' INTERESTS

As notified by the Company's sponsors, Celestial Capital Limited ("CASH") and SBI E2-Capital (HK) Limited ("SBI E2-Capital") (collectively the "Sponsors"), 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 30th September 2003 other than the following in relation to SBI E2-Capital:

- (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 9th September 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. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence, executive directors of SIIS, under the Pre-IPO Share Option Scheme to subscribe for shares of the Company as disclosed in this report. Subsequently, Mr. Yoshitaka Kitao resigned as executive director of SIIS with effect from 3rd October 2003.

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

AUDIT COMMITTEE

The Company set up an audit committee on 5th 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 unaudited condensed consolidated results for the 3 months and 9 months ended 30th September 2003 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 26th February 2003.

On behalf of the Board

Li Shui

Executive Chairman

Hong Kong, 12th November 2003