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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** about this circular, 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 (the "Company"), you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or 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)*

**GENERAL MANDATES TO REPURCHASE SHARES  
AND  
TO ISSUE NEW SHARES**

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The notice convening the annual general meeting of the Company to be held at the Company meeting room of Rear Portion of G/F, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong on 30th April 2004 (Friday) at 4:30 p.m. is set out in the last 4 pages of the Company's annual report 2003.

A form of proxy for use at the annual general meeting is enclosed with this circular.

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

31st March 2004

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## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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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 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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LETTER FROM CHAIRMAN

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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)*

*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.

*Independent Non-executive Directors:*

MAK Tak Cheong, Edmund

CHE King Lun, Frankly

*Principal office:*

Rear Portion of G/F

Grandview Garden

71-77 Pau Chung Street

Tokwawan

Kowloon

Hong Kong

*Registered Office:*

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town, Grand Cayman

British West Indies

31st March 2004

*To shareholders of Lai Fai International Holdings Limited (the “Company”)*

Dear Sir or Madam,

**GENERAL MANDATES TO REPURCHASE SHARES  
AND  
TO ISSUE NEW SHARES**

**INTRODUCTION**

The purpose of this circular is to seek your approval of ordinary resolutions to enable the directors (the “Directors”) of Lai Fai International Holdings Limited (the “Company”) to exercise the powers of the Company to repurchase the Company’s fully paid up shares of HK\$0.10 each (the “Shares”) representing up to a maximum of 10% of the existing issued share capital of the Company at the date of passing the resolution, to grant a general mandate to the Directors to issue new shares up to a maximum of 20% of the issued share capital of the Company at the date of passing the resolution and to increase the number of shares which the

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## LETTER FROM CHAIRMAN

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Directors may issue under their general mandate by the number of shares repurchased. The resolutions will be proposed at the forthcoming annual general meeting of the Company to be held on 30th April 2004 (the “Annual General Meeting”).

This circular gives details regarding the proposed general mandates for the repurchase of shares and to issue new shares of the Company.

This circular, for which the directors of Lai Fai International Holdings Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to Lai Fai International Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this circular is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this circular misleading; and (3) 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.

### **GENERAL MANDATE FOR REPURCHASE OF SHARES**

The Rules Governing the Listing of Securities on the Growth Enterprise Market (the “GEM Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) contain provisions to regulate the repurchase by companies with primary listing on the Growth Enterprise Market (“GEM”) operated by the Stock Exchange of their own shares (the “Share Buy Back Rules”). In accordance with the Share Buy Back Rules, this circular contains an explanatory statement to provide you with requisite information reasonably necessary to enable you to make an informed decision on whether to vote for or against resolution set out as Resolution 5 in the notice convening the Annual General Meeting which will be proposed at the Annual General Meeting. For the purpose of this circular, the term “shares” shall have the meaning ascribed thereto under the Code on Share Repurchases which mean shares of all classes and securities which carry a right to subscribe for or purchase shares.

### **GENERAL MANDATE TO ISSUE SHARES**

The resolution set out as Resolution 4 in the notice convening the Annual General Meeting will be proposed at the Annual General Meeting for the granting of a general mandate to the Directors to allot, issue and deal with new Shares up to a maximum of 20% of the issued share capital of the Company at the date of passing the resolution; in addition, subject to a separate approval of shareholders of the resolution set out as Resolution 6 in the notice convening the Annual General Meeting, the number of Shares purchased by the Company under the Repurchase Proposal will also be added to the 20% general mandate as mentioned above.

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## LETTER FROM CHAIRMAN

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The resolution set out as Resolution 6 in the notice convening the Annual General Meeting relates to the extension of the general mandate to be granted to the Directors to issue new Shares during the relevant period by adding to it the number of Shares purchased under the Repurchase Proposal, if any.

### **PROXY ARRANGEMENT**

A form of proxy for use at the Annual General Meeting is enclosed with this circular. To be valid, the form of proxy must be completed in accordance with the instructions printed thereon and deposited, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, at the Company's branch share registrar and transfer office in Hong Kong, Tengis Limited, G/F, Bank of East Asia Harbour View Centre 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting.

### **RECOMMENDATION**

The Directors consider that the Repurchase Proposal and the granting and the extension of the general mandate to issue new Shares are in the best interests of the Company and its shareholders and accordingly recommend that all shareholders to vote in favour of the resolutions set out as Resolutions 4 to 6 in the notice convening the Annual General Meeting to be proposed at the Annual General Meeting.

Yours faithfully,  
On behalf of the Board of  
**Lai Fai International Holdings Limited**  
**Li Shui**  
*Executive Chairman*

*The following is the explanatory statement which is required to be sent to shareholders under the Share Buy Back Rules in connection with the proposed general mandate for repurchase of shares.*

**(i) GEM Listing Rules**

The GEM Listing Rules permit companies with a primary listing on GEM to purchase their securities subject to certain restrictions. Repurchases must be funded out of funds legally available for the purpose and in accordance with the company's constitutional documents and the applicable laws of the jurisdiction in which the company is incorporated or otherwise established. Any repurchase will be made out of funds of the company legally permitted to be utilized in this connection, including out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose of the repurchase or, if so authorised by its articles of association subject to the Companies Law of the Cayman Islands, out of capital. Any premium payable on a repurchase over the par value of the shares to be purchased must be provided for out of the profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law of the Cayman Islands, out of capital.

**(ii) The Repurchase Proposal**

The resolution set out as Resolution 5 in the notice convening the Annual General Meeting which will be proposed at the Annual General Meeting relates to the granting of a general and unconditional mandate (the "Repurchase Mandate") to the Directors to repurchase, on GEM or any other stock exchange on which the shares of the Company may be listed and recognized by the Securities and Futures Commission of Hong Kong, Shares up to a maximum of 10% of the issued share capital of the Company at the date of passing the resolution (the "Repurchase Proposal").

The Repurchase Mandate would continue in force until the conclusion of the next annual general meeting of the Company unless it is rescinded at such meeting or until revoked or varied by ordinary resolution of the shareholders of the Company in a general meeting prior to the next annual general meeting of the Company, whichever occurs first.

**(iii) Reasons for Repurchase**

Although the Directors have no present intention of repurchasing the Shares, they believe that it is in the best interests of the Company and its shareholders for the Directors to have a general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchase may, depending on the market conditions and

funding arrangement at the time, lead to an enhancement of the net assets value of the Company and/or its earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and its shareholders.

**(iv) Share Capital**

As at 26th March 2004, being the latest practicable date prior to the printing of this circular (the “Latest Practicable Date”), the issued share capital of the Company comprised 128,000,000 Shares.

Subject to the passing of the Repurchase Mandate, the Company would be allowed under the Repurchase Proposal to repurchase Shares up to a maximum of 12,800,000 Shares on the basis that no further Shares will be issued whether as a result of the exercise of any options granted under the share option scheme adopted by the Company on 5th February 2003 as stated in its prospectus issued on 11th February 2003 or otherwise repurchased prior to the date of the forthcoming Annual General Meeting.

**(v) Funding of Repurchases**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the memorandum and articles of association of the Company and the applicable laws of the Cayman Islands.

It is presently proposed that any purchase of the Shares would be made out of profits of the Company or the proceeds of a fresh issue made for the purpose or out of capital provided that on the day immediately following the date of repurchase the Company is able to pay its debts as they fall due in the ordinary course of business.

The Directors have no present intention to repurchase any Shares but consider that the mandate will provide the Company with the flexibility to make such repurchase as and when appropriate and is beneficial to the Company. Such repurchases may enhance the Company’s net asset value per Share and/or earnings per Share. The Directors consider the repurchase of Shares in full at any time during the Proposed Repurchase Period may have a material adverse impact on the working capital or gearing position of the Company as compared with the position disclosed in the published audited accounts for the year ended 31st December 2003 but the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse impact on the working capital or gearing ratio of the Company.



**(vi) Share Prices**

The highest and lowest prices at which the Shares have been traded on the Stock Exchange from 26th Feb 2003 (commencement date of dealings in the Company's Shares on GEM) to 26th March 2004 (the Latest Practicable Date) were as follows:

	Share prices	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2003</b>		
26th February to 28th February	1.19	0.95
1st March to 31st March	1.00	0.82
1st April to 30th April	0.82	0.72
1st May to 31st May	0.78	0.66
1st June to 30th June	0.75	0.70
1st July to 31st July	0.70	0.68
1st August to 31st August	0.70	0.63
1st September to 30th September	0.78	0.62
1st October to 31st October	0.66	0.65
1st November to 30th November	0.65	0.65
1st December to 31st December	0.65	0.50
<b>2004</b>		
1st January to 31st January	0.61	0.53
1st February to 29th February	0.58	0.50
1st March to 26th March	0.55	0.48

**(vii) Hong Kong Code on Takeovers and Mergers ("Takeovers Code")**

If the Repurchase Mandate were exercised in full, the percentage shareholding of the substantial shareholders of the Company before and after such repurchase would be as follows:

Substantial Shareholders	Notes	Before repurchase	After repurchase
Li Shui	1	36.66%	40.74%
Best Perfect International Limited	1	40.20%	44.67%
Softbank Corporation	2 & 3	29.90%	33.23%
Artfolio Corporation	2	21.84%	24.27%
Softbank Finance Corporation	3	8.06%	8.96%

- Best Perfect International Limited, an investment holding company incorporated in the British Virgin Islands with limited liability on 31st January 2002 and is legally and beneficially owned by Li Shui and Lee You as to 91.20% and 8.80%, respectively, both of whom are executive Directors of the Company.

2. Artfolio Corporation, formerly known as SBF Auction Inc., a company incorporated in Japan with limited liability on 1st November 2000 and is owned as to 84.02% and 15.98% by Softbank Finance Corporation (“Softbank Finance”) and Softbank Internet Technology Fund No. 2 (“Softbank Fund”), respectively.
3. Softbank Finance, a corporation incorporated in Japan on 24th March 1999 and is owned as to 100% by Softbank Corporation, a corporation incorporated in Japan and whose shares are listed on the First Section of the Tokyo Stock Exchange Inc.. Softbank Corporation, is regarded as the ultimate shareholder of Artfolio.

Softbank Fund, a discretionary investment fund managed by Softbank Investment Corporation, a corporation incorporated in Japan on 8th July 1999 and whose shares are listed on the First Section of the Tokyo Stock Exchange Inc..

### **Takeovers Code Consequences**

If as a result of a repurchase of Shares a shareholder’s proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purposes of the Takeovers Code as issued by the Securities and Futures Commission of Hong Kong. As a result, a shareholder, or group of shareholders acting in concert, depending on the level of increase of the shareholders’ interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeover Code.

As at the Latest Practicable Date, by virtue of the Securities (Disclosure of Interests) Ordinance, Softbank Corporation, is the beneficial shareholders of Softbank Finance and Artfolio, was deemed to be interested in 38,272,000 Shares representing 29.9% of the issued share capital of the Company. Based on such shareholding and in the event that the repurchase resolution is exercised in full, the shareholding of Softbank Corporation would be increased to 33.23% of the issued share capital of the Company and such increase would give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. However, the Directors have no present intention to exercise the mandate to repurchase shares to such an extent as would result in takeover obligations.

### **(viii) Share Repurchases by the Company**

The Company had not purchased any of its shares since 26th Feb 2003 (commencement date of dealings in the Company’s Shares on GEM) prior to the date of this circular.

### **(ix) General Information and Undertakings**

- (a) None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, has any present intention to sell any Shares to the Company or any of its subsidiaries.
- (b) The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of Hong Kong and the Cayman Islands.
- (c) No connected person (as defined in the GEM Listing Rules) has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.