

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



LAI FAI INTERNATIONAL HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8183)

AMENDMENTS TO THE COMPANY'S MEMORANDUM AND ARTICLES OF ASSOCIATION AND PROPOSED CHANGE IN APPLICATION OF THE IPO PROCEEDS

The Directors announce that the Company proposes to convene and hold an EGM whereupon resolutions shall be proposed to the Shareholders for approval of the following:

- (i) the Amendments as a result of, and pursuant to, the changes to the GEM Listing Rules announced by the Stock Exchange on 30 January 2004; and
- (ii) proposed amendments to the application of the IPO Proceeds from the Listing and to the Company's business objectives as set out in the Prospectus.

A circular containing further details of (i) the Amendments; (ii) the proposed change of the application of the IPO Proceeds; and (iii) the notices of the EGM, will be despatched to Shareholders as soon as practicable.

AMENDMENTS TO THE COMPANY'S MEMORANDUM AND ARTICLES OF ASSOCIATION

The Stock Exchange announced on 30 January 2004 changes to the GEM Listing Rules which became effective on 31 March 2004. Such changes to the GEM Listing Rules include (i) amendments to Appendix 3 of the GEM Listing Rules with which the Articles must conform and; (ii) requirements for any vote at general meetings of the Company to be taken on a poll in certain circumstances. Accordingly, the Board announces that at the Board Meeting, it was resolved that, pursuant to the Articles, the approval of the Shareholders be obtained by way of a special resolution to be proposed at the EGM of the Company in respect of the Amendments to comply with the changes made to the GEM Listing Rules. Such Amendments will include the following:

- (i) a new definition for "associate" will be added to the Articles which will have the same meaning as ascribed to it under the GEM Listing Rules;
- (ii) the period for lodgement by Shareholders of the notice to nominate a Director shall at least seven days which shall commence no earlier than the day after the despatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting;

- (iii) subject to such exceptions specified in the Articles, the prohibition against Directors from voting on any resolution of the Board where such Directors have a material interest and from any votes of such Directors being counted towards the quorum of the relevant meeting of the Board shall be extended to any contract, arrangement or other proposals in which any of such Director's associates (as defined under the GEM Listing Rules) shall be interested;
- (iv) where any Shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution of the Shareholders in general meeting or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted; and
- (v) to clarify when votes at general meetings of the Company may be taken on a poll.

The Amendments will be subject to the relevant special resolution in respect thereto being proposed and passed by the requisite number of Shareholders entitled to attend and vote at the EGM. The full text of the Amendments will be set out in the circular.

PROPOSED CHANGE IN APPLICATION OF THE IPO PROCEEDS

The Directors hereby announce a change in the proposed use of the IPO Proceeds. The Directors confirm that there will not be any change in the nature of the business of the Group, being sourcing, manufacture, retail and wholesale of jewellery products, as a result of the change in the proposed use of the IPO Proceeds.

Set out below is the breakdown of (i) the proposed use of the IPO Proceeds as stated in the Prospectus; (ii) the revised proposed use of the IPO Proceeds; and (iii) the IPO Proceeds utilized up to 29 February 2004:

Proposed use of the IPO Proceeds set out in the Prospectus
For the six months ending

	26 February						Total	Revised proposed use of the IPO Proceeds	IPO Proceeds utilized up to 29 February 2004
	2003		2004		2005				
	to 30 June	31 December	30 June	31 December	30 June	31 December			
	2003	2003	2004	2004	2005	2005			
						HK\$'000	HK\$'000	HK\$'000	
Expansion of geographical coverage:									
Japan									
1. Conduct market research and feasibility studies on the Japanese local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision	100						100	85	85
2. Set up a representative office in Tokyo for handling the preparation work for the Group's expansion in Japan		100					100	—	—
3. Open a sales outlet in Tokyo									
• fixtures and leasehold improvement		1,000					1,000	—	—
• marketing, promotion and advertising		300					300	298	298
• Inventory and daily working capital purpose		3,000					3,000	2,217	1,478

Proposed use of the IPO Proceeds set out in the Prospectus
For the six months ending

26 February 2003							Revised	IPO Proceeds
to 30 June 2003	31 December 2003	30 June 2004	31 December 2004	30 June 2005	31 December 2005	Total	proposed use of the IPO Proceeds	utilized up to 29 February 2004
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

PRC

1. Conduct market research and feasibility studies on the PRC local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision			100	50		150	100	97
2. Set up a representative office in Beijing for handling the preparation work for the Group's expansion in PRC								
• fixtures and leasehold improvement			100			100	150	116
3. Procure inventory of jewellery products to be sold at Beijing Antique Corp's retail outlets as planned under the PRC memorandum of understanding						3,000	2,000	843

Proposed use of the IPO Proceeds set out in the Prospectus
For the six months ending

26 February 2003							Revised IPO Proceeds proposed use utilized up to	
to 30 June 2003	31 December 2003	30 June 2004	31 December 2004	30 June 2005	31 December 2005	Total	of the IPO Proceeds	29 February 2004
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

4. Commencing from early 2004, seek cooperation with strategic partners to distribute the Group's products in Beijing and Shanghai, the PRC

In Beijing:

• fixtures & leasehold improvement			900			900	450	—
• marketing, promotion and advertising			250			250	100	—
• inventory and daily working capital purpose			2,600			2,600	1,300	—

In Shanghai:

• fixtures & leasehold improvement				900		900	—	—
• marketing, promotion and advertising				250		250	—	—
• inventory and daily working capital purpose				1,500		1,500	—	—

Proposed use of the IPO Proceeds set out in the Prospectus
For the six months ending

26 February 2003							Revised IPO Proceeds proposed use of the IPO	utilized up to 29 February 2004
to 30 June 2003	31 December 2003	30 June 2004	31 December 2004	30 June 2005	31 December 2005	Total	Proceeds	2004
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>

Extension of business into
e-commerce:

<p>1. in order to better serve the Group's customers and enhance its after-sales customer services, the existing website www.laifai.com.hk will be enriched by including members' section, products update, news and profile of the Group</p> <ul style="list-style-type: none"> • setting up IT department, investment in computer hardware and software and maintaining the website 	25	25	25	25	25	25	150	100	62
<p>2. Develop an e-commerce platform for the promotion and sales of the Group's products on the Internet</p> <ul style="list-style-type: none"> • setting up logistic support and delivery channels for Internet sales • investment in software and manpower for enhancing internet security, payment gateway, firewall, anti-hacking, etc. 				300	200		500	350	—
				200			200	100	—

Proposed use of the IPO Proceeds set out in the Prospectus

For the six months ending

	26 February 2003						Total HK\$'000	Revised proposed use of the IPO Proceeds HK\$'000	IPO Proceeds utilized up to 29 February 2004 HK\$'000			
	to 30 June 2003 HK\$'000	31 December 2003 HK\$'000	30 June 2004 HK\$'000	31 December 2004 HK\$'000	30 June 2005 HK\$'000	31 December 2005 HK\$'000						
	• investment in hardware for processing internet sales, data management, data security, backup, etc.				200					200	250	—
	• promotion and advertising of the website www.laifai.com.hk					200				200	100	—
• estimated inventory for internet sales					700	300	1,000	500	—			
Expansion of business to cover IVS												
• fixtures & leasehold improvement								800	—			
• employment and training of new staff								500	—			
• inventory and daily working capital Additional working capital								2,000	—			
Additional working capital												
• wages and salaries								3,553	3,553			
• miscellaneous								561	561			
• daily working capital purpose								886	—			
Total	125	4,425	3,225	4,525	3,775	325	16,400	16,400	7,093			

As set out in the Prospectus, the Group proposed to apply an aggregate of HK\$4,500,000 to intensify its efforts in expanding its geographical coverage and exploring sales opportunities in potential new markets in Japan. The Group will consider both retail and wholesale business opportunities in Japan. As a result of the cost saving efforts of the Group, the Directors expect to reduce the aggregate spending of exploring business opportunities in Japan by HK\$1,900,000 which will be used as additional general working capital of the Group. As such, a total of approximately HK\$2,600,000 of the IPO Proceeds is now proposed to be used for procurement of inventory of jewellery products and daily working capital for the sales outlet in Tokyo, Japan.

As set out in the Prospectus, the Group proposed to apply an aggregate of HK\$3,100,000 to intensify its efforts in expanding its geographical coverage and exploring sales opportunities in potential new markets with Beijing Antique Corp. (北京市文物公司) in Beijing, the PRC. As a result of the signing of the Closer Economic Partnership Arrangement in July 2003, the import tariff for jewellery products as charged by the government of the PRC has been lowered on 1 January 2004 and the cost of inventory held at Beijing Antique Corp. can be reduced. Therefore, the Directors intend to reduce the aggregate spending by HK\$950,000 for this purpose and such amount will be used as additional general working capital of the Group. As a result, a total of HK\$2,150,000 million of the IPO Proceeds is now proposed to apply for procurement of inventory of jewellery products to be sold at Beijing Antique Corp's retail outlets as planned under the memorandum of understanding entered into between the Group and Beijing Antique Corp. dated 5 September 2002.

As set out in the Prospectus, the Group proposed to apply an aggregate of HK\$3,900,000 for the expansion of its business through strategic merger and acquisition, alliance or other form of cooperation with partners which are complementary to the Group's expansion strategy in Beijing, the PRC. As a result of the implementation of the IVS since July 2003, the Directors expect that there will be increasing number of customers from Beijing, the PRC to Hong Kong and such customers will purchase the Group's products at its existing sales outlet in Hong Kong. Therefore, the Directors decided to reduce the scale of operations for the proposed store at Beijing, the PRC so as to minimise the level of competition against the existing sales outlet in Hong Kong and consequently will reduce the application of the IPO Proceeds for this purpose by HK\$1,950,000. Such amount will be used for developing the business derived from IVS through its existing sales outlet in Hong Kong. The balance of HK\$1,950,000 of the IPO Proceeds will be used for the Group's expansion of its business through strategic merger and acquisition, alliance or other form of cooperation with partners which are complementary to the Group's expansion strategy in Beijing, the PRC.

As set out in the Prospectus, the Group proposed to apply an aggregate of HK\$2,650,000 for the expansion of its business through strategic merger and acquisition, alliance or other form of cooperation with partners which are complementary to the Group's expansion strategy in Shanghai, the PRC. As a result of the IVS since July 2003, the Directors consider the inbound tourists from the PRC to Hong Kong, including tourists from Shanghai, the PRC, will increase. The Board resolves that the Group will terminate the plan of expansion of its business through strategic merger and acquisition, alliance or other form of cooperation with partners in Shanghai and the Group intends to apply an aggregate of HK\$1,350,000 of the IPO Proceeds for developing the business derived from IVS through its existing sales outlet in Hong Kong. The balance of HK\$1,300,000 of the IPO Proceeds will be used as additional working capital of the Group.

The Directors intend to apply an aggregate of HK\$3,300,000 of the IPO Proceeds to develop the business derived from IVS through the existing sales outlet in Hong Kong. Such amount will be used for renovation of the existing outlet in Hong Kong, employment and training of staff in Hong Kong and procurement of jewellery products which can attract the customers from the PRC and daily working capital for existing sales outlet in Hong Kong.

As set out in the Prospectus, the Group proposed to apply an aggregate of HK\$2,250,000 to promote certain of its lower-priced jewellery products through the internet to reach a broader spectrum of customers. In view of the decrease of the hardware and software development costs which lead to the cost-savings in extending the Group's business into e-commerce, the Directors have decided to reduce the Group's spending for this purpose by approximately HK\$850,000 which will be applied as additional working capital. Therefore, a total of HK\$1,400,000 of the IPO Proceeds is now proposed to be utilized for extending the Group's business into e-commerce.

As set out in the Company's announcement dated 12 August 2003 and the Group's Annual Report 2003, as at 31 December 2003, the Company had used an aggregate amount of HK\$3,114,000 of the IPO Proceeds for working capital purposes. During the period from January 2004 to February 2004, the Group applied an additional HK\$1,000,000 of the IPO Proceeds as working capital. The total amount of HK\$4,114,000 of the IPO Proceeds was intended to be used by the Group for working capital purposes on a temporary basis and not as a permanent deviation from the intended use of the IPO Proceeds as set out in the Prospectus. Barring from unforeseeable circumstances which may have a material impact on the financial position of the Company, for example, the recurrence of SARS, the Directors now propose to permanently change the use of the IPO Proceeds from its intended use as set out in the Prospectus and therefore consider it appropriate to obtain Shareholders' approval for such change.

GENERAL

The EGM is proposed to be convened and held for the purpose of considering the Amendments and the proposed change of the application of the IPO Proceeds.

A circular containing details of (i) the Amendments; (ii) the proposed change of the application of the IPO Proceeds; and (iii) the notice of the EGM, will be despatched to the Shareholders as soon as practicable.

DIRECTORS OF THE COMPANY

Executive Directors as at the date of this announcement are Mr. Li Shui and Mr. Lee You. Non-executive Directors as at the date of this announcement are Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence. The independent non-executive Directors as at the date of this announcement are Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly.

DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Amendments”	proposed amendments to the Articles
“Annual Report 2003”	annual report of the Company issued on 29 March 2004
“Articles”	the articles of association of the Company as at the date of this announcement
“Board”	board of Directors
“Board Meeting”	meeting of the Board held on 16 April 2004
“Company”	Lai Fai International Holdings Limited, a company incorporated in the Cayman Islands the securities of which are listed on the GEM
“Director(s)”	Director(s) of the Company
“EGM”	an extraordinary general meeting of the Shareholders proposed to be convened to consider and, if thought fit, approve the resolutions to be proposed thereat in relation to the Amendments and the change of application of the IPO Proceeds
“GEM”	The Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	The Rules Governing the Listing of Securities on GEM
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency in Hong Kong
“IPO Proceeds”	net proceeds raised from the initial public offering of the new shares in the Company by way of new listing on GEM of the Stock Exchange
“IVS”	Individual Travel Visa Scheme which has been introduced by the central government of the PRC since July, 2003
“PRC”	The People’s Republic of China, which for the purpose of this announcement only shall exclude Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Prospectus”	the prospectus issued by the Company dated 11 February 2003 in connection with the placing of the shares of the Company and the listing of the shares in the GEM

“SARS”	Severe Acute Respiratory Syndrome
“Shareholder(s)”	Holder(s) of shares of HK\$0.1 each in the capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

By the order of the Board

Li Shui
Chairman

Hong Kong, 21 April 2004

This announcement for which the directors of the Company 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 the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

This announcement will remain on the “Latest Company Announcements” page on the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication.