
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 to the purchaser(s) or to the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or transferee(s).

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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)

(Stock code: 8183)

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

This circular, for which the directors (the "Directors") of Lai Fai International Holdings Limited (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, 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.

A notice convening a extraordinary general meeting of the Company to be held at the Rear Portion of G/F, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong on Tuesday, 8 June 2004 at 4:00 p.m. is set out on pages 15 to 21 of this circular.

Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the office of the branch share registrar and transfer office of the Company, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not prevent shareholders from attending and voting at the meeting if they so wish.

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

11 May 2004

CHARACTERISTICS

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 to 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 announcement in gazetted newspaper. 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.

DEFINITIONS

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

“Amendments”	proposed amendments to the Articles to be approved by the Shareholders at the EGM, details of which are set out in this circular and in resolution no. 2 of the Notice
“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 circular
“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 and the Shares 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 new listing of the Shares in the Company by way of new issue and offer for sale on GEM
“IVS”	Individual Travel Visa Scheme which has been introduced by the central government of the PRC since July 2003

DEFINITIONS

“Notice”	the notice convening the EGM as set out and attached to this circular
“PRC”	The People’s Republic of China, which for the purpose of this circular 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 listing of the Shares on GEM by way of new issue and offer for sale of the Shares of the Company
“SARS”	Severe Acute Respiratory Syndrome
“Shares”	shares of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	Holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

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.*

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

*Head Office and principal Place of
business in Hong Kong:*

Rear Portion of G/F

Grandview Garden

71-77 Pau Chung Street

Tokwawan

Kowloon

Hong Kong

11 May 2004

To the Shareholders

Dear Sir or Madam,

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

INTRODUCTION

The Board announced on 21 April 2004 their intention to put forward to the Shareholders at the EGM, the Notice of which is set out in this circular, a special resolution to approve the Amendments and an ordinary resolution to authorise the Company to change the use of the IPO Proceeds from that detailed in the Prospectus in the manner set out in this circular.

LETTER FROM THE BOARD

AMENDMENTS TO THE ARTICLES

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 announced on 21 April 2004 that the approval of the Shareholders would be sought by way of a special resolution to be proposed at the EGM in respect of the Amendments to comply with such changes made to the GEM Listing Rules. Accordingly, a special resolution will be proposed at the EGM to approve the Amendments.

The full text of the proposed changes to the Articles is set out in resolution number 2 contained in the Notice. The following is a summary of the relevant Amendments (adopting the same lettering as used in the said resolution number 2):—

- (A) This provision revises the definition of an “associate” of a Director to conform it with changes made to the GEM Listing Rules.
- (B) This provision includes the definition of the “GEM Listing Rules” to reflect references made to the GEM Listing Rules in the Amendments.
- (C) This provision recognises that the definition of a ‘recognised clearing house’ is now contained in the Securities and Futures Ordinance (not the Securities (Clearing Houses) Ordinance, which has been repealed).
- (D) to (H) These Amendments have been included to reflect the requirements under the GEM Listing Rules for certain circumstances where votes at general meetings of the Company must be decided by poll.
- (I) This provision is new and arises out of changes to the GEM Listing Rules. It makes it clear that the votes of any Shareholder who is required, by virtue of the GEM Listing Rules, to abstain from voting on any resolution at general meetings of the Company shall not be counted.
- (J) This provision arises out of changes to the GEM Listing Rules. The relevant Article has been amended to define the period within which notice of intention to propose a person for election to the office of a Director at a general meeting must be given to the Company. The provision is relevant where a Shareholder wishes to propose a person for election to the Board. It does not apply where existing members of the Board retire at the relevant general meeting of the Company and seek re-election nor does it apply in a situation where the Board itself is recommending the person for election. The relevant period for giving such notice

LETTER FROM THE BOARD

will be at least seven days commencing on the day after despatch of the notice of the general meeting of the Company and expiring on the day falling seven days before the date of the general meeting of the Company.

(K) to (M) These Amendments arise out of changes to the GEM Listing Rules.

The minor change proposed in respect of Article 101 relates to the fact that it should, logically, refer to the interests of the Director's associates (as well as his own interests).

The proposed new Article 102 is substantially the same as existing Article 102 but provides that a Director should declare the interests, if any, of his associates (as well as his own interests) in any proposed contract or arrangement with the Company, at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration.

The proposed new Article 103 clarifies that a Director may not vote on resolutions of the Board in which he or any of his associates has a material interest. A provision of this nature is already contained in existing Article 103 but it is proposed that it be extended to clarify that it covers the interests of a Director's associates. Voting is, however, permitted in respect of certain exceptional matters as set out in both the existing and the proposed new Article 103.

PROPOSED CHANGE IN APPLICATION OF THE IPO PROCEEDS

The Directors propose a change in the proposed use of the IPO Proceeds from that detailed in the Prospectus in the manner set out in this circular. 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 such change in the proposed use of the IPO Proceeds.

LETTER FROM THE BOARD

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

	Proposed use of the IPO Proceeds set out in the Prospectus						Revised proposed use of the IPO Proceeds Total	Revised IPO Proceeds utilized up to 29 February 2004
	26 February 2003 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		
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
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
• Inventory and daily working capital purpose	—	3,000	—	—	—	—	3,000	2,217
								1,478

LETTER FROM THE BOARD

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

	26 February 2003		For the six months ending				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	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	—	—	—	3,000	2,000	843
4. Commencing from early 2004, seek cooperation with strategic partners to distribute the Group's products in Beijing and Shanghai, the PRC									

LETTER FROM THE BOARD

Proposed use of the IPO Proceeds set out in the Prospectus

For the six months ending

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

LETTER FROM THE BOARD

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:

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

- setting up IT department, investment in computer hardware and software and maintaining the website

	25	25	25	25	25	25	150	100	62
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2. Develop an e-commerce platform for the promotion and sales of the Group's products on the Internet

- setting up logistic support and delivery channels for Internet sales

	—	—	—	300	200	—	500	350	—
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- investment in software and manpower for enhancing internet security, payment gateway, firewall, anti-hacking, etc.

	—	—	—	200	—	—	200	100	—
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LETTER FROM THE BOARD

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

	26 February 2003						Total	Revised proposed use of the IPO Proceeds	IPO Proceeds utilized up to 29 February 2004
	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	HK\$'000	HK\$'000	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

LETTER FROM THE BOARD

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

LETTER FROM THE BOARD

tourists from the PRC to Hong Kong, including tourists from Shanghai, the PRC, will increase. As announced by the Immigration Department of The Government of Hong Kong Special Administrative Region in July 2003 Shanghai was one of 16 cities in the PRC that was eligible for IVS.

The Board resolved 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. The implementation plan for expansion of business to cover IVS is as follows:—

	Proposed IPO Proceeds for expansion of business to cover IVS to be utilized as at			
	30 June	31 July	31 August	Total
	2004	2004	2004	2004
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
Fixtures & leasehold improvement on 50% of gross floor area of existing sales outlet in Hong Kong	800,000	—	—	800,000
Employment and training of 15 to 20 new staff	100,000	200,000	200,000	500,000
Inventory and daily working capital	1,000,000	500,000	500,000	2,000,000
Total	<u>1,900,000</u>	<u>700,000</u>	<u>700,000</u>	<u>3,300,000</u>

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.

LETTER FROM THE BOARD

As set out in the Company's announcement dated 12 August 2003, the outbreak of SARS in 2003, tourism was one of the most seriously affected industries during the outbreak of SARS in April to June 2003. As the Group is principally engaged in the manufacturing and retailing of jewellery products to Japanese tourists who are substantially referred to the Group by inbound Japanese tour operations in Hong Kong, the results of the Group for the second quarter of 2003 was significantly affected, as set out in the Annual Report 2003. Pursuant to the monthly data published by Hong Kong Tourism Board, the number of Japanese visitors decreased by approximately 32% during the third quarter and fourth quarter of 2003 when compared with the corresponding period in 2002. This affected the recovery of the Group's turnover in the third quarter and fourth quarter of 2003 during which a further sum of approximately HK\$903,000 of the IPO Proceeds was used to meet the daily working capital requirements of the Group. As a result of the outbreak of bird flu in nearby countries of Hong Kong at the beginning of 2004, monthly data published by Hong Kong Tourism Board indicates that the number of Japanese visitors decreased by 32.4% during this period when compared with the corresponding period in 2003 which had a further adverse effect on the Group's turnover and resulted in an additional HK\$1 million of IPO Proceeds being applied as working capital of the Group. 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 unforeseen circumstances which may have a material adverse impact on the financial position of the Group, 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 INFORMATION

The Notice is set out in pages 15 to 21 of this circular.

Whether or not you intend to attend the EGM in person, you are requested to complete and return the accompanying proxy form to the Company's branch share registrar and transfer office, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for holding the EGM. The return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

RECOMMENDATION

The Directors consider that the proposed change in application of the IPO Proceeds and the Amendments are in the interest of the Company and its Shareholders as a whole and therefore recommend that Shareholders vote in favour of the relevant resolutions at the forthcoming EGM.

LETTER FROM THE BOARD

DIRECTORS OF THE COMPANY

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

Yours faithfully,
By order of the Board
Li Shui
Executive Chairman

NOTICE OF EGM



LAI FAI INTERNATIONAL HOLDINGS LIMITED

廉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 of Lai Fai International Holdings Limited (the “Company”) will be held at the Rear Portion of G/F, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong on Tuesday, 8 June 2004 at 4:00 p.m. for the following purposes:—

ORDINARY RESOLUTIONS

To consider and, if thought fit, pass, with or without modification the following as an Ordinary Resolution:

1. **“THAT** the proposed change in the application of the IPO Proceeds (as defined in the circular issued by the Company dated 11 May 2004 (the “Circular”, a copy of which is attached to this notice of extraordinary general meeting of the Company for identification purposes only) in the manner detailed in the Circular be and is hereby approved, that the IPO Proceeds be and are applied by the Company in the manner provided in the Circular and that any director of the Company be and is hereby authorised to take any action and/or step in connection with, or as a result of, such change in the application of the IPO Proceeds and/or the application of the IPO Proceeds from the date on which this ordinary resolution shall have been approved by the shareholders of the Company at the extraordinary general meeting convened by this notice and/or any other documents ancillary to it and/or any matters in connection therewith as such director(s) shall consider necessary, desirable or appropriate to give effect to the change in the application of the IPO Proceeds as detailed in the Circular and any other documents ancillary to it and to ensure the performance of the Company of its obligations detailed in the Circular and any other documents ancillary to such proposed change in the application of the IPO Proceeds.”

SPECIAL RESOLUTIONS

To consider and, if thought fit, pass, with or without modification the following as a Special Resolution:

2. **“THAT** the articles of association of the Company be and are hereby amended in the following manner:
 - (A) By deleting the existing definition of “associate” set out in Article 2(1) and replacing it with the following:—

““associate” has the meaning ascribed to it in the GEM Listing Rules;”.

NOTICE OF EGM

- (B) By adding the following new definition of “GEM Listing Rules” after the definition of “dollars” in the existing Article 2(1):

“Listing Rules shall mean the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited as amended from time to time;”.

- (C) By replacing the reference in Article 2(1) to “Section 2 of the Securities (Clearing Houses) Ordinance of Hong Kong” with “the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)”.

- (D) By replacing the existing second sentence of the existing Article 66 of “A resolution put to the vote of a meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or in the withdrawal of any other demand of a poll) a poll is demanded:” in its entirety with the following new second sentence immediately after the first sentence of the existing Article 66:

“A resolution put to the vote of a meeting shall be decided on a show of hands unless a poll is required under the GEM Listing Rules or (before or on the declaration of the result of the show of hands or in the withdrawal of any other demand of a poll) a poll is demanded:”.

- (E) By deleting the last paragraph of Article 67 in its entirety and substituting therefor with the following new paragraph:

“Unless a poll is so required or demanded and, in the latter case, not withdrawn, a declaration by the chairman that a resolution has been carried, or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the minute book of the Company shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against the resolution.”.

- (F) By deleting the existing Article 68 in its entirety and substituting therefor with the following new Article 68:

“If a poll is required or duly demanded, the result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded or required. There shall be no requirement for the chairman to disclose the voting figures on a poll.”.

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- (G) By deleting the existing Article 69 in its entirety and substituting therefor with the following new Article 69:

“A poll demanded on the election of the chairman or required under the GEM Listing Rules, or on a question of adjournment, shall be taken forthwith. A poll demanded or required on any other question shall be taken in such manner (including the use of ballot or voting papers or tickets) and either forthwith or at such time (not being more than 30 days from the date of the meeting or adjourned meeting at which the poll was required or demanded) and place as the chairman directs. It shall not be necessary (unless the chairman otherwise directs) for notice to be given of a poll not taken immediately.”.

- (H) By deleting the existing Article 70 in its entirety and substituting therefor with the following new Article 70:

“The requirement or demand of a poll shall not prevent the continuance of a meeting or the transaction of any business other than the question on which the poll has been demanded or is required, and, with the consent of the chairman, the demand for a poll may be withdrawn at any time before the close of the meeting or the taking of the poll, whichever is the earlier.”.

- (I) By adding the following new Article 73A after the existing Article 73:

“Where the Company has knowledge that any Member is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such Member in contravention of such requirement or restriction shall not be counted.”.

- (J) By deleting the existing Article 88 in its entirety and substituting therefor with the following new Article 88:

“No person, other than a Director retiring at the meeting, shall, unless recommended by the Directors for election, be eligible for election to the office of Director at any general meeting, unless Notice signed by a Member (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such Notice is given of his intention to propose such person to be proposed for election as a Director and also a Notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office, during the period (being a period of at least seven days) commencing on the day after despatch of the notice of general meeting at which elections to the office of Director are to be considered and ending on the day that falls seven days before the date of the general meeting (both days inclusive).”

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- (K) By deleting existing Article 101 in its entirety and subsisting therefor the following new Article 101:

“Subject to the Law and to these Articles, no Director or proposed or intending Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatever, nor shall any such contract or, any other contract or arrangement in which any Director or his associates is in any way interested be liable to be avoided, nor shall any Director or his associates so contracting or, being so interested be liable to account to the Company or the Members for any remuneration, profit or other benefits realised by any such contract or an arrangement by reason of such Director holding that office or of the fiduciary relationship thereby established provided that such Director shall disclose the nature of his interest or his associates’ interest in any contract or arrangement in which he or his associates is interested in accordance with Article 102 herein.”

- (L) By deleting existing Article 102 in its entirety and substituting therefor the following new Article 102:

“A Director who to his knowledge, is interested or has an associate who is interested, in any way, whether directly or indirectly, in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest or the interest of his associate at the meeting of the Board at which the question of entering into the contract or arrangement is first taken into consideration if he knows his interest or the interest of his associate then exists; or in any other case at the first meeting of the Board after he knows that he or his associate is or has become so interested. For this purpose, a general notice to the Board by a Director to the effect that:—

- (i) he or any of his associates is a member or officer of a specified company or firm and is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with that company or firm; or
- (ii) he or any of his associates is to be regarded as interested in any contract or arrangement which may after the date of the notice be made with a specified person who is connected with him or them,

shall be deemed to be a sufficient declaration of interest in relation to any such contract or arrangement; provided that no such notice shall be effective unless either it is given at a meeting of the Board or the Director takes reasonable steps to secure that it is brought up and read at the next Board meeting after it is given.”.

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(M) By deleting the existing Articles 103(1) to 103(3) in their entirety and substituting therefor with the following new Articles 103(1) to 103(3):

“(1) Save as otherwise provided by the Articles, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract, arrangement or proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:—

- (i) any contract or arrangement for the giving to such Director or any of his associates of any security or indemnity in respect of money lent by him or them or obligations incurred or undertaken by him or them for the benefit of the Company and any of its subsidiaries;
- (ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself or themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (iii) any contract or arrangement concerning an offer of the Shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates, is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iv) any contract or arrangement in which the Director or any of his associates is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his or their interest in shares or debentures or other securities of the Company;
- (v) any contract, arrangement or proposal concerning any company in which the Director or any of his associates is interested only, whether directly or indirectly, as an officer or executive or shareholder other than a company in which the Director together with his associates is beneficially interested in 5 percent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest is derived);

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- (vi) any proposal or arrangement concerning the benefit of employees of the Company or its subsidiaries including the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to Directors (and their associates) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director or any of his associates who may be employees of the Company as such any privilege or advantage not accorded to the employees to which such scheme or fund relates;
- (vii) any proposal or arrangement concerning the adoption, modification or operation of any share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or of any of its subsidiaries, under which the Director or any of his associates who may be employees of the Company or any of its subsidiaries may benefit.
- (2) A company shall be deemed to be a company in which a Director owns five (5) per cent. or more if and so long as (but only if and so long as) he and his associates, (either directly or indirectly) are the holders of or beneficially interested in five (5) per cent, or more of any class of the equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or any of his associates as bare or custodian trustee and in which he or any of his associates has no beneficial interest, any shares comprised in a trust in which the Director's interest or the interest of any of his associates is in reversion or remainder, if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or any of his associates is interested only as a unit holder and any shares which carry no voting rights at general meetings and very restrictive dividend and return of capital rights.
- (3) Where a company in which a Director together with his associates holds five (5) per cent. or more is materially interested in a transaction, then that Director or any of his associates shall also be deemed materially interested in such transaction.”.

On behalf of the board
Lam King Pui
Company Secretary

Hong Kong, 11 May 2004

NOTICE OF EGM

Registered office:

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

Head office and principal

place of business in Hong Kong:
Rear Portion of G/F
Grandview Garden
71-77 Pau Chung Street
Tokwawan
Kowloon
Hong Kong

Notes:

- (1) A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of him. A proxy need not be a member of the Company.
- (2) In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of authority, at Tengis Limited, the Company's Hong Kong branch share registrar, at Tengis Limited, Ground Floor, 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.
- (3) Delivery of an instrument for appointing a proxy shall not preclude, a Shareholder from attending and voting in person at the meeting and any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Form of proxy for use at the Extraordinary General Meeting or any adjournment thereof

I/We¹ _____

of _____

being holder(s) of _____² shares of HK\$0.10 each in the capital of Lai Fai International Holdings

Limited (the "Company"), HEREBY APPOINT the Chairman of the meeting³ or _____

of _____

as my/our proxy to act for me/us at the Extraordinary General Meeting (or at any adjournment thereof) of the Company, to be held at the Rear Portion of G/F, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong on Tuesday, 8 June 2004 at 4:00 p.m. and in particular (but without limitation) at such meeting (or any adjournment thereof) to vote for me/us and in my/ our name(s) in respect of the resolutions set out in the notice concerning the said meeting as indicated below, or, if no such indication is given, as my/our proxy thinks fit.

	For ⁴	Against ⁴
1. Ordinary resolution no. 1 set out in the notice of the EGM in respect of the proposed change in the application of the IPO Proceeds in the manner set out in the circular dated 11 May 2004.		
2. Special resolution no. 2 set out in the notice of the EGM in respect of the amendments of the articles of association of the Company.		

Signature⁵ _____

Dated _____

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares registered in your name(s) to which the proxy relates. If no number is inserted, this form of proxy will be deemed to relate to all those shares in the Company registered in your name(s).
3. If any proxy other than the Chairman of the Meeting is preferred, strike out the words "the Chairman of the meeting" and insert the name and address of the proxy desired in the space provided. **ANY ALTERATION MADE TO THIS FORM OF PROXY MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR A RESOLUTION, TICK IN THE BOX MARKED "FOR" THE RELEVANT RESOLUTION. IF YOU WISH TO VOTE AGAINST A RESOLUTION, TICK IN THE BOX MARKED "AGAINST" THE RELEVANT RESOLUTION.** Failure to tick either box will entitle your proxy to cast your vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than that referred to in the notice convening the meeting.
5. Any shareholder entitled to attend and vote at the above meeting may appoint one or more than one proxies to attend and to vote in his stead. A proxy need not be a shareholder of the Company.
6. Where there are joint registered holders of any Share, any one such person may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall alone be entitled to vote in respect of the joint holding.
7. In order 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 certified copy thereof, must be delivered to the office of the branch share registrar and transfer office of the Company in Hong Kong, Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting thereof.