



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)

FIRST QUARTERLY REPORT FOR 2004

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

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.

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This report, for which 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 GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (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:

- Turnover of the Group for the 3 months ended 31 March 2004 was approximately HK\$4.3 million (2003: HK\$9.3 million), representing a decrease of approximately 53% as compared with the corresponding period in 2003.
- The Group had an unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$1.6 million for the 3 months ended 31 March 2004 whereas in the same quarter of 2003, there was an unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$620,000.
- Loss per share for the 3 months ended 31 March 2004 was HK1.265 cents.

RESULTS

The board of directors (the “Board”) of Lai Fai International Holdings Limited (the “Company”) announces the unaudited consolidated first quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the 3 months ended 31 March 2004, together with the unaudited comparative figures for the corresponding period in 2003 as follows:

		For the 3 months ended 31 March	
		2004	2003
	<i>Notes</i>	Unaudited	Unaudited
		HK\$’000	HK\$’000
Turnover	3	4,358	9,333
Cost of sales		<u>(1,809)</u>	<u>(2,618)</u>
Gross profit		2,549	6,715
Other revenue and gains		—	9
Selling and distribution costs		(1,561)	(3,183)
General and administrative expenses		<u>(2,583)</u>	<u>(2,719)</u>
Profit/(loss) from operating activities		(1,595)	822
Finance cost		<u>(24)</u>	<u>(9)</u>
Profit/(loss) before tax		(1,619)	813
Tax	4	<u>—</u>	<u>(193)</u>
Net profit/(loss) from ordinary activities attributable to shareholders		<u>(1,619)</u>	<u>620</u>
Dividend — special dividend	5	<u>—</u>	<u>4,697</u>
Earnings/(loss) per share	6		
— Basic, HK cents		(1.265)	0.553
— Diluted, HK cents		<u>N/A</u>	<u>0.541</u>

Notes:

1. Group Reorganisation and Basis of Presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 September 2002 under the Companies Law of the Cayman Islands.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), on 5 February 2003, the Company became the holding company of the companies now comprising the Group. This was accomplished by acquiring the entire issued share capital of Lai Fai International (BVI) Limited (“LFBVI”), which is the then immediate holding company of the other subsidiaries, in consideration of and in exchange for the allotment and issue of 9,999 shares of HK\$0.1 each in the share capital of the Company credited as fully paid. Further details of the Group Reorganisation are set out in the prospectus of the Company dated 11 February 2003 (the “Prospectus”).

The shares of the Company were listed on the GEM of the Stock Exchange on 26 February 2003 (the “Listing Date”).

The Group Reorganisation involved companies under common control, and for accounting purposes, the Company and its acquired subsidiaries are regarded and accounted for as a continuing group. Accordingly, the unaudited consolidated results have been prepared using the merger basis of accounting as if the Company had always been the holding company of the Group. On this basis, the Company has been treated as the holding company of its subsidiaries for the financial periods presented or since their dates of incorporation if these are shorter periods, rather than from the subsequent date of acquisition of the subsidiaries.

All significant transactions and balances within the Group have been eliminated on consolidation.

In the opinion of the directors, the unaudited consolidated results prepared on this basis present more fairly the comparative results of the Group as a whole.

2. Segment Information

During the periods under review, the Group was principally engaged in the manufacture, retail and wholesale of jewellery products in Hong Kong, and 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 has been made for the 3 months ended 31 March 2004 as the Group had no assessable profits arising in Hong Kong during the period under review.

Hong Kong profits tax for the 3 months ended 31 March 2003 was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during that period.

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

5. Dividend

The Board does not recommend the payment of interim dividend for the 3 months ended 31 March 2004.

6. Earnings/(Loss) Per Share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the 3 months ended 31 March 2004 of HK\$1,619,000 (2002: unaudited net profit of HK\$620,000) and the weighted average of 128,000,000 (2003: 112,071,111) shares of the Company, calculated based on the assumption that the Group Reorganisation as further detailed in note 1 to this announcement had been completed on 1 January 2003.

(b) Diluted earnings/(loss) per share

No diluted loss per share has been presented for the 3 months ended 31 March 2004 as the outstanding share options had an anti-dilutive effect on the basic loss per share for that period.

The calculation of diluted earnings per share for the 3 months ended 31 March 2003 was based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$620,000. The weighted average number of ordinary shares used in the calculation is 112,071,111 ordinary shares in issue during the period and the weighted average of 2,644,444 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

7. Movement on Reserves

UNAUDITED	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Retained Earnings <i>HK\$'000</i>	Proposed Special dividend <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 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)
Listing expenses	(9,137)	—	—	—	(9,137)
Special dividend of HK3.67 cents per share	—	—	—	(4,698)	(4,698)
Net profit from ordinary activities attributable to shareholders for the period	—	—	620	—	620
At 31 March 2003	<u>3,664</u>	<u>21,177</u>	<u>13,134</u>	<u>(4,698)</u>	<u>33,277</u>
At 1 January 2004	3,664	21,177	2,767	—	27,608
Net loss from ordinary activities attributable to shareholders for the period	—	—	(1,619)	—	(1,619)
At 31 March 2004	<u>3,664</u>	<u>21,177</u>	<u>1,148</u>	<u>—</u>	<u>25,989</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

The products offered by the Group comprise jewellery products made of jade and coloured gemstones, diamond and precious metals and accessories and decorative items which are designed to appeal to Japanese customers.

Substantially all of the Group's retail customers are referred 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 annually renewable in order to secure Japanese tour groups visiting the Group's retail outlet.

During the periods under review, the number of arrival visitors from Japan for the first quarter of 2004 as per Hong Kong Tourism Board ("HKTB") was 220,047 whereas the same quarter in 2003 was 325,431. The significant decrease of 32.4% was mainly attributed to the recurrence of infection cases for Severe Acute Respiratory Syndrome ("SARS") and bird flu in the nearby countries of Hong Kong which had undermined the Japanese visitors' confidence in paying visit to Hong Kong. Moreover, the number of arrival visitors for the first quarter of 2003 represented a pre-SARS level figure for which the World Health Organisation had not issued a travel advisory warning against all non-essential travel to Hong Kong yet.

Turnover

The Group's turnover for the 3 months ended 31 March 2004 was approximately HK\$4.3 million (2002: HK\$9.3 million), there was significant decrease in turnover for about 53% as a result of the general decrease in number of arrival visitors from Japan as mentioned above.

As the Group's major source of customers are referred by inbound Japanese tour operators for which the extent of drop in number of inbound Japanese tours was greater than the overall decrease in numbers of arrival visitors from Japan, accordingly, a greater magnitude of decrease in turnover was shown.

Gross profit

Gross profit was approximately HK\$2.5 million in the current quarter and approximately HK\$6.7 million in the same quarter of 2003. As more price discounts were given in the current quarter to the customers in order to stimulate their spending, gross profit margin has dropped by 14% and which has accounted for the greater magnitude of decrement in gross profit than the turnover of 62%.

Net profit/(loss) from ordinary activities attributable to shareholders

The result of the decrease in turnover and gross profit in the current quarter has made the Group recorded an unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$1.6 million whereas in the same quarter of 2003, there was an unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$620,000.

Business Outlook and Prospect

Although the results of the Group in the first quarter of 2004 were not satisfactory, management is optimistic about the results of the coming quarters. Signs of gradual recovery for arrival visitors from Japan were noted in April and May of 2004 as a result of the prolific events organized by the HKTB. Moreover, Japanese tourists have restored their confidence in paying visit to Hong Kong because of the continual upholding of medical health and safety in Hong Kong for the prevention of highly communicable diseases as evidenced by the success in keeping zero infection case for SARS and bird flu since 2004. In addition, Hong Kong has a stable political and social environment which is also an attracting factor for the Japanese's consideration in taking outbound travel to Hong Kong.

Besides the Japanese customers, the Group is now planning the extension of retail business to cover the tourists from Mainland China. An announcement was made in the GEM website on 21 April 2004 that, subject to the approval by shareholders in the extraordinary general meeting to be held on 8 June 2004, the Group will divert part of the net proceeds raised from listing of the Company's new shares in February 2003 to renovate its existing shop outlet, recruit additional staff and increase additional inventory in order to cope with marketing requirements of tourists from the Mainland China.

Since the adoption of the Individual Visa Scheme ("IVS") by the Mainland China government in July 2003, record breaking numbers of arrival visitors from China to Hong Kong are demonstrated from month to month. The average number of arrival visitors from China in the first quarter of 2004 was about 1 million per month and from 1 July 2004 onwards, there will be a total of 32 Mainland China cities with approximately 150 million of Mainland China residents being eligible under the IVS to pay visit to Hong Kong for travel.

Hong Kong has been internationally renowned for its stylish and high quality jewellery, which is also the must-buy item for most of the Mainland China tourists. With the extension of retail business to cover the tourists from Mainland China, the Group will definitely unveil a huge uncharted market for its jewellery retailing business.

Looking ahead, the Tung Chung cable car connecting to the Big Buddha and Disneyland will be opened in 2005, the Olympic Games will be hosted by Beijing in 2008 and the East Asian Games will be hosted by Hong Kong in 2009, together with the prolific events as organized by the HKTB from month to month, all of these are international attractions attracting tourists all over the World to Hong Kong. The prosperous growth of Hong Kong tourism will definitely create abundant growth potential for the Group in the coming years.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The directors of the Company have confirmed that the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACTS

Mr. Li Shui and Mr. Lee You entered into service contracts with the Company for an initial term of three years commencing on 26 February 2003 which are subject to termination by either party giving not less than three months' written notice to the other.

Save as disclosed above, no director has a service contract with the Company which is not determinable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Except for those disclosed in the paragraph headed "Connected Transactions" in the Company's annual report 2003, none of the directors had any material beneficial interests, either direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the 3 months ended 31 March 2004.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 31 March 2004, the interests of the directors and the chief executives of the Company in the shares and underlying shares 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 director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital as at 31 March 2004
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Mr. Li Shui (<i>Note</i>)	740,000	—	51,456,000	52,196,000	40.78

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 Plan of the Company adopted on 5 February 2003, certain directors and chief executives were granted share options to subscribe for shares of the Company, details of which as at 31 March 2004 were as follows:

		Exercise price per share	Exercisable period	Number of share options outstanding as at 31 March 2004	Percentage of the Company's issued share capital as at 31 March 2004
Mr. Li Shui (<i>Note 1</i>)	26 February 2003	HK\$0.1	<i>Note 2</i>	4,010,000	3.13
Mr. Yoshitaka Kitao	26 February 2003	HK\$0.1	<i>Note 2</i>	1,300,000	1.02
Mr. Yu Kam Kee, Lawrence	26 February 2003	HK\$0.1	<i>Note 2</i>	500,000	0.39
Mr. Ty Siao Kian, George	26 February 2003	HK\$0.1	<i>Note 2</i>	500,000	0.39
Mr. Che King Lun, Frankly	26 February 2003	HK\$0.1	<i>Note 2</i>	400,000	0.31
Mr. Mak Tak Cheong, Edmund	26 February 2003	HK\$0.1	<i>Note 2</i>	200,000	0.16
Mr. Lam King Pui	26 February 2003	HK\$0.1	<i>Note 3</i>	330,000	0.26
Ms. Yip Kwai Lin	26 February 2003	HK\$0.1	<i>Note 3</i>	200,000	0.16
Ms. Kong Yuk Ching	26 February 2003	HK\$0.1	<i>Note 3</i>	200,000	0.16
Ms. Wong Lai Chu	26 February 2003	HK\$0.1	<i>Note 3</i>	80,000	0.06
Ms. Lee Mei Ling	26 February 2003	HK\$0.1	<i>Note 3</i>	100,000	0.08
Ms. Chu Ka Loi	26 February 2003	HK\$0.1	<i>Note 3</i>	100,000	0.08
Ms. Chan Yuk Ping	26 February 2003	HK\$0.1	<i>Note 3</i>	80,000	0.06

Notes:

- The options were granted to Best Perfect which is beneficially owned by Mr. Li Shui and Mr. Lee You, directors of the Company as to 91.2% and 8.8% respectively. Accordingly, Mr. Li Shui was deemed to be interested in the options to subscribe for shares in the Company held by Best Perfect under the SFO.
- (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 12 months after 26 February 2003 (the "First Exercise Period") and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the First Exercise Period.
- (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 6 months after 26 February 2003 (the "Employees' First Exercise Period") and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the Employees' First Exercise Period.

Save as disclosed above, as at 31 March 2004, none of the directors and the chief executives 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

So far as the directors or chief executive of the Company are aware, as at 31 March 2004, the persons (not being directors and the chief executives 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	<i>Notes</i>	Capacity and nature of interest shares	Number of ordinary held	Percentage of the Company's issued share capital as at 31 March 2004
Best Perfect	<i>1</i>	Directly beneficially owned	51,456,000	40.20
Mr. Li Shui	<i>1</i>	Through a controlled corporation Directly beneficially owned	51,456,000 740,000	40.20 0.58
Ms. Li So Kuen	<i>2</i>	Through a spouse	52,196,000	40.78
Artfolio Corporation ("Artfolio")	<i>3</i>	Directly beneficially owned	27,955,200	21.84
Softbank Finance Corporation ("Softbank Finance")	<i>3</i>	Through a controlled corporation Directly beneficially owned	27,955,200 10,316,800	21.84 8.06

Notes:

1. 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.
2. Ms. Li So Kuen is deemed to be interested in the 52,196,000 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.

Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Plan of the Company adopted on 5 February 2003, share options in respect of 4,010,000 underlying shares of the Company were granted to Best Perfect, details of which were disclosed in the paragraph headed “Directors’ and Chief Executives’ Interests in the Shares and Underlying Shares”. As at 31 March 2004, 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 31 March 2004, 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.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as those disclosed under the heading “Long positions in underlying shares of the Company” of “Directors’ and Chief Executives’ Interests in the Shares and Underlying Shares” above, at no time during the period under review were rights to acquire benefits by means of the acquisition of shares in the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its subsidiaries a party to any arrangement to enable the Company’s directors to acquire such rights in any other body corporate.

SPONSORS' INTERESTS

Pursuant to an agreement dated 10 February 2003 entered with the Company, Celestial Capital Limited ("CASH") received and will receive fees for acting as the Company's retained sponsor until 31 December 2005 or until such agreement is terminated upon the terms and conditions set out therein.

Except for the above, as notified by CASH, none of the sponsor 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 interest 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 31 March 2004 and the date of this report respectively.

COMPETING INTEREST

Saved as those disclosed in the Prospectus and this report, as at 31 March 2004, 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.

AUDIT COMMITTEE

The Company set up an audit committee on 5 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 first quarterly report for the 3 months ended 31 March 2004 have been reviewed by the audit committee, who are of the opinion that such report complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Since its establishment, the audit committee met 6 times, reviewing the Company's and the Group's reports and results announcements as well as providing advice and recommendations to the directors of the Company.

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 26 February 2003.

PURCHASE, REDEMPTION OR 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 3 months ended 31 March 2004.

On behalf of the Board

Li Shui

Executive Chairman

Hong Kong, 14 May 2004

As at the date of this report, the Board comprises of 2 executive Directors, being Mr. Li Shui and Mr. Lee You; 2 non-executive Directors, being Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence; 2 independent non-executive Directors, being Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly.