



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)

**THIRD QUARTERLY REPORT
FOR THE NINE MONTHS ENDED 30TH SEPTEMBER 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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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, 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 report.

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 for the 3 months and 9 months ended 30th September 2004 were HK\$11,470,000 and HK\$25,256,000 (2003: HK\$6,190,000 and HK\$15,996,000) respectively which demonstrated a significant improvement of 85% and 58%. The improvements were partly attributed to the fact that turnover in the same periods of last year was rather slack amid the aftermath of the Severe Acute Respiratory Syndrome (“SARS”) and partly attributed to the active effort in the current quarter by the Group in widening its customers base to visitors from the Mainland China.
- Gross profit for the 3 months and 9 months ended 30th September 2004 were HK\$7,886,000 and HK\$16,595,000 (2003: HK\$3,684,000 and HK\$10,250,000) respectively for which the gross profit margins were still maintained at an average level of above 60%.
- For the 3 months ended 30th September 2004, the Group recorded a net profit from ordinary activities attributable to shareholders of approximately HK\$20,000 (2003: net loss of HK\$852,000).

For the 9 months ended 30th September 2004, the Group sustained a net loss from ordinary activities attributable to shareholders of approximately HK\$1,360,000 (2003: net loss of HK\$2,693,000).

The 9 months period ended results in 2004 was not desirable because the Group’s overall profitability was undermined by the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004. Accordingly, the turnover in the first quarter and earlier of second quarter were rather slack and which could not cover certain fixed administrative cost of the Group in that periods, net loss was resulted.

- Earning per share was HK cent 0.016 for the 3 months ended 30th September 2004 and loss per share was HK cents 1.06 for the 9 months ended 30th September 2004.
- The Board does not recommend the payment of an interim dividend for the 9 months ended 30th September 2004.

RESULTS

The board of directors (the “Board”) of the Company presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the 3 months and 9 months ended 30th September 2004, together with the comparative unaudited figures for the corresponding periods in 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Three months ended		Nine months ended	
		30th September		30th September	
		2004	2003	2004	2003
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	11,470	6,190	25,256	15,996
Cost of sales		(3,584)	(2,506)	(8,661)	(5,746)
Gross profit/(loss)		7,886	3,684	16,595	10,250
Other revenue and gains		19	24	20	73
Selling and distribution costs		(4,769)	(1,985)	(9,210)	(5,462)
General and administrative expenses		(3,111)	(2,570)	(8,703)	(7,533)
Profit/(loss) from operating activities		25	(847)	(1,298)	(2,672)
Finance cost	4	(5)	(5)	(62)	(21)
Profit/(loss) before tax		20	(852)	(1,360)	(2,693)
Tax	5	—	—	—	—
Net profit/(loss) from ordinary activities attributable to shareholders		20	(852)	(1,360)	(2,693)
Dividend — special dividend	6	—	—	—	(4,697)
Earning/(loss) per share	7				
— Basic, HK cents		0.016	(0.666)	(1.060)	(2.194)
— Diluted, HK cents		0.015	(0.632)	N/A	(2.100)

Notes:

1. Basis of Presentation

The unaudited condensed consolidated results have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee. The Group's unaudited condensed consolidated results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in preparing the unaudited condensed consolidated results for the 3 months and 9 months ended 30th September 2004 and 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2003.

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

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. Finance Cost

Finance cost in current period represented unsecured bank loan interest whereas in the last correspondence period represented interest on finance lease.

5. Tax

No provision for Hong Kong profits tax was made for the 3 months and 9 months ended 30th September 2004 (2003: Nil) as the Group had no estimated assessable profit in that period.

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

6. Dividend

The Board does not recommend the payment of an interim dividend for the 9 months ended 30th September 2004.

7. Earning/(Loss) Per Share

(a) *Basic earning/(loss) per share*

The calculation of basic earning/(loss) per share is based on the unaudited net profit from ordinary activities attributable to shareholders for the 3 months ended 30th September 2004 of HK\$20,000 and the unaudited net loss from ordinary activities attributable to shareholders for the 9 months ended 30th September 2004 of HK\$1,360,000 (3 months and 9 months ended 30th September 2003: unaudited net loss of HK\$852,000 and HK\$2,693,000 respectively) and the weighted average number of 128,730,380 and 128,245,237 (3 months and 9 months ended 30th September 2003: weighted average number of 128,000,000 and 122,748,718 deemed to be in issue throughout the periods respectively) shares of the Company.

(b) *Diluted earning/(loss) per share*

The calculation of diluted earning per share for the 3 months ended 30th September 2004 was based on the unaudited net profit from ordinary activities attributable to shareholders of HK\$20,000. The weighted average number of ordinary shares used in the calculation is 128,730,380 ordinary shares in issue during the period and the weighted average of 5,669,620 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the period.

No diluted loss per share has been presented for the 9 months ended 30th September 2004 as the outstanding share options had an anti-dilutive effect on the basic loss per share for that period.

8. Movement on Reserves

	(Unaudited) Share Premium <i>HK\$'000</i>	(Unaudited) Contributed Surplus <i>HK\$'000</i>	(Unaudited) Retained Earnings <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
At 1st January 2003	—	21,177	12,514	33,691
Arising on placement of 25.6 million new shares	23,040	—	—	23,040
Capitalisation issue	(10,239)	—	—	(10,239)
Share issue expenses	(9,137)	—	—	(9,137)
Special dividend of 3.67 HK cents per share	—	—	(4,697)	(4,697)
Net loss from ordinary activities attributable to shareholders for the period	—	—	(2,693)	(2,693)
At 30th September 2003	<u>3,664</u>	<u>21,177</u>	<u>5,124</u>	<u>29,965</u>
At 1st January 2004	3,664	21,177	2,768	27,609
Net loss from ordinary activities attributable to shareholders for the period	—	—	(1,360)	(1,360)
At 30th September 2004	<u>3,664</u>	<u>21,177</u>	<u>1,408</u>	<u>26,249</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

The Group is principally engaged in the manufacturing and retailing of jewellery products appealing to Japanese tourists who are substantially referred to the Group by inbound Japanese tour operators in Hong Kong with whom the Group has entered into Business Cooperation Agreements for an initial term of three years and then renewable annually thereafter.

Most of the retail sales in Hong Kong are tourism driven. The outbreak of SARS in Hong Kong in the second quarter of 2003 and the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004 had seriously affected the Hong Kong economy and especially in the tourism and the retail sectors.

Nonetheless, the turning point was unveiled when the Mainland China Government adopted the Individual Visa Scheme (“IVS”) for easy travel to Hong Kong from 1st July 2003 onwards. There are now a total of 32 Mainland China cities with an approximate of 150 million Mainland China citizens eligible for traveling to Hong Kong under the IVS policy. The number of total visitors traveling to Hong Kong of which over 50% are Mainland China citizens have reached record high from month to month. The boost in total number of visitors has not only accounted for a notable growth in the overall volume of retail sales but also as a hub in stimulating the recovery of the Hong Kong economy.

Turnover

Turnover for the 3 months and 9 months ended 30th September 2004 were HK\$11,470,000 and HK\$25,256,000 (2003: HK\$6,190,000 and HK\$15,996,000) respectively which demonstrated a significant improvement of 85% and 58%. The improvements were partly attributed to the fact that turnover in the same periods of last year was rather slack amid the aftermath of the SARS and partly attributed to the active effort in the current quarter by the Group in widening its customers base to visitors from the Mainland China.

Gross profit

Gross profit for the 3 months and 9 months ended 30th September 2004 were HK\$7,886,000 and HK\$16,595,000 (2003: HK\$3,684,000 and HK\$10,250,000) respectively for which the gross profit margins were still maintained at an average level of above 60%.

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

For the 3 months ended 30th September 2004, the Group recorded a net profit from ordinary activities attributable to shareholders of approximately HK\$20,000 (2003: net loss of HK\$852,000).

For the 9 months ended 30th September 2004, the Group sustained a net loss from ordinary activities attributable to shareholders of approximately HK\$1,360,000 (2003: net loss of HK\$2,693,000).

The 9 months period ended results in 2004 was not desirable because the Group’s overall profitability was undermined by the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004. Accordingly, the turnover in the first quarter and earlier of second quarter were rather slack and which could not cover certain fixed administrative cost of the Group in that periods, net loss was resulted.

BUSINESS OUTLOOK AND PROSPECTS

Hong Kong has been internationally renowned for its stylish and high quality jewellery and is the third largest jewellery exporter in the world. Hong Kong is also a shopping paradise that tourists all over the world would visit for shopping fine products and especially be fond of by jewellery lovers. According to a recent survey by the Hong Kong Tourism Board (“HKTB”), jewellery and watches are always amongst the top 3 spending items by the arrival visitors by shopping categories.

Also from publications by the HKTB, the total number of arrival visitors to Hong Kong have shown record high numbers from month to month and Mainland China visitors have accounted more than 50% the number in total.

Arrival Visitors Statistic	2004		2004		2003	
	China	%	Total	China	%	Total
First Quarter	2,919,108	59	4,935,200	2,130,761	50	4,301,503
Second Quarter	2,749,023	54	5,077,388	1,104,599	67	1,646,156
Half yearly total	<u>5,668,131</u>	<u>57</u>	<u>10,012,588</u>	<u>3,235,360</u>	<u>54</u>	<u>5,947,659</u>

Compared with visitors from other countries, Mainland China visitors to Hong Kong tend to be (1) younger, (2) more predominantly female, and (3) junior white-collar workers. It was also indicated that the top three most often purchased items by Mainland China tourists are (1) fine jewellery (2) cosmetics, and (3) cameras and other home electronics. Moreover, the average spending by Mainland China visitors has surpassed those from Japan and Taiwan and being the leading spenders in Hong Kong.

In this regard, the Group has repositioned its retail strategy and commenced in the current quarter, as approved by the Company’s shareholders in an extraordinary general meeting (“EGM”) held on 8th June 2004 (details were set out in the Company’s circular dated 11th May 2004) for diverting part of the net proceeds raised from listing of the Company’s shares in February 2003, extended its retail business to cover tourists from Mainland China.

The result at the start-up stage was quite promising and turnover from retail sales to Mainland China tourists had accounted for approximately 13% of the Group’s total turnover in the 3rd quarter of 2004.

It was expected that the proportion of turnover from Mainland China tourists would further increase in the 4th quarter of 2004 and thereafter as a result of the golden week holiday on 1st October 2004 for celebrating National Day of China and also the following travel hot season around Christmas.

Looking ahead, there are numerous international attractions coming up which include the Tung Chung cable car connecting to the Big Buddha and Disneyland to 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, number of tourists from Japan and Mainland China will certainly have a booming growth in the coming year and this will definitely benefit the Group for tremendous sale potential.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th September 2004, the Group had total assets of approximately HK\$43.2 million, including cash and bank balances of approximately HK\$8.1 million. The Group will continue to finance its operations from its sales operations.

With its net current assets of approximately HK\$36 million, current ratio of 10 and quick ratio of 3.1, the Group remains in a financially liquid position as at 30th September 2004. Taking into consideration of the potential financial resources that may be available to the Group from financial institutions, it is anticipated that the Group will have adequate financial resources to meet its ongoing operations and development requirements in the coming year.

GEARING RATIO

The Group's bank borrowing is an interest-bearing unsecured bank loan of which approximately HK\$275,000 remained outstanding as at 30th September 2004 and the Group does not have any bank overdrafts.

The Group's gearing ratio defined as total interest-bearing debt to shareholders' fund would be 0.007 on 30th September 2004.

CAPITAL STRUCTURE

Since the listing of the Company's shares on the GEM of the Stock Exchange on 26th February 2003, except for the exercise of share options in the current quarter by the eligible persons pursuant to the Pre-IPO Share Option Plan of the Company adopted on 5th February 2003, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

FUNDING AND TREASURY POLICY

The Group adopts a prudent funding and treasury policy with regard to its overall business operations and foreign currencies receipts are converted into Hong Kong dollars and banked in at the next banking day to minimise foreign exchange risks.

SIGNIFICANT INVESTMENTS

There was no significant investment during the period.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

For the 9 months ended 30th September 2004, approximately 77% of the Group's income was denominated in Hong Kong dollars or US dollars, with the remaining denominated in Yen and Renminbi. For the same period, over 95% of the Group's expenditure was denominated in Hong Kong dollars, with the remaining denominated in Yen and Australian dollars. The Group received cash in Japanese Yen, Renminbi, Hong Kong dollars and US dollars from its retail operations in the approximate proportion of 42%, 43%, 10% and 5%, respectively for the 9 months ended 30th September 2004. The Group generally charges a small premium over the market exchange rate if the customer pays in Yen and Renminbi, and converts the Yen and Renminbi receipts to Hong Kong dollars on the next banking day. As such, the Group faces minimal foreign exchange risks.

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 26th 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 9 months ended 30th September 2004.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN THE SHARES AND UNDERLYING SHARES

As at 30th September 2004, the interests of the directors and the chief executive 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 30th September 2004
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Mr. Li Shui (<i>Note</i>)	2,560,000	—	51,456,000	54,016,000	41.89

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 5th February 2003, certain directors, ex-director, chief executive and employees were granted share options to subscribe for shares of the Company, details of which as at 30th September 2004 were as follows:

	Date of grant	Exercise price per share	Exercisable period	Total number of share options granted	Number of share options exercised during the period	Number of share options outstanding as at 30th September 2004	Percentage of the Company's issued share capital as at 30th September 2004
Directors/Ex-director							
Mr. Li Shui (<i>Note 2</i>)	26th February 2003	HK\$0.1	<i>Note 3</i>	4,010,000	—	4,010,000	3.11
Mr. Yoshitaka Kitao	26th February 2003	HK\$0.1	<i>Note 3</i>	1,300,000	400,000	900,000	0.70
Mr. Yu Kam Kee, Lawrence	26th February 2003	HK\$0.1	<i>Note 3</i>	500,000	—	500,000	0.39
Mr. Ty Siao Kian, George *	26th February 2003	HK\$0.1	<i>Note 3</i>	500,000	—	500,000	0.39
Mr. Che King Lun, Frankly	26th February 2003	HK\$0.1	<i>Note 3</i>	400,000	—	400,000	0.31
Mr. Mak Tak Cheong, Edmund	26th February 2003	HK\$0.1	<i>Note 3</i>	200,000	—	200,000	0.16

* resigned on 15th March 2004

Employees (*Note 1*)

Mr. Lam King Pui	26th February 2003	HK\$0.1	<i>Note 4</i>	330,000	165,000	165,000	0.13
Ms. Yip Kwai Lin	26th February 2003	HK\$0.1	<i>Note 4</i>	200,000	100,000	100,000	0.08
Ms. Kong Yuk Ching	26th February 2003	HK\$0.1	<i>Note 4</i>	200,000	100,000	100,000	0.08
Ms. Wong Lai Chu	26th February 2003	HK\$0.1	<i>Note 4</i>	80,000	40,000	40,000	0.03
Ms. Lee Mei Ling	26th February 2003	HK\$0.1	<i>Note 4</i>	100,000	50,000	50,000	0.04
Mr. Chu Ka Loi	26th February 2003	HK\$0.1	<i>Note 4</i>	100,000	50,000	50,000	0.04
Ms. Chan Yuk Ping	26th February 2003	HK\$0.1	<i>Note 4</i>	80,000	40,000	40,000	0.03

Notes:

1. Employees are those working under employment contracts regarded as “continuous contracts” under Employment Ordinance (Chapter 57 of the laws of Hong Kong).

2. 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.
3. (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 12 months after 26th February 2003 (the “First Exercise Period”) and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the First Exercise Period.
4. (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 26th 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 30th September 2004, none of the directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors.

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 30th September 2004, the persons (not being directors and the chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

Long position in shares of the Company

Name of shareholders	Notes	Capacity and nature of interest shares	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30th September 2004
Best Perfect	1	Directly beneficially owned	51,456,000	39.90
Mr. Li Shui	1	Through a controlled corporation	51,456,000	39.90
		Directly beneficially owned	2,560,000	1.99
Ms. Li So Kuen	2	Through a spouse	54,016,000	41.89
Artfolio Corporation ("Artfolio")	3	Directly beneficially owned	27,955,200	21.68
Softbank Finance Corporation ("SBF")	3	Through a controlled corporation	27,955,200	21.68
		Directly beneficially owned	10,316,800	8.00

Notes:

- Best Perfect is beneficially owned by Mr. Li Shui and Mr. Lee You, directors of the Company, as to 91.2% and 8.8%, respectively. Accordingly, Mr. Li Shui is deemed to be interested in the same block of shares held by Best Perfect under the SFO.

2. Ms. Li So Kuen is deemed to be interested in the 54,016,000 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 SBF. Accordingly, SBF 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 5th February 2003, share options in respect of 4,010,000 underlying shares of the Company were granted to Best Perfect, details of which were disclosed in the paragraph headed “Directors’ and Chief Executive’s Interests in the Shares and Underlying Shares”. As at 30th September 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 30th September 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 Executive’s 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 10th February 2003 entered with the Company, Celestial Capital Limited (“CASH”) received and will receive fees for acting as the Company’s retained sponsor until 31st 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 30th September 2004 and the date of this report respectively.

COMPETING INTEREST

Saved as those disclosed in the Prospectus, as at 30th September 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 5th February 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly and one executive director, namely, Mr. Li Shui. Mr. Mak Tak Cheong, Edmund is the chairman of the audit committee. The Group's quarterly report for the 3 months and 9 months ended 30th September 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 8 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 26th 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 9 months ended 30th September 2004.

On behalf of the Board

Li Shui

Executive Chairman

Hong Kong, 29th October 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; 3 independent non-executive directors, being Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly.