



# LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 8183)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2004**

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**HIGHLIGHTS:**

1. Turnover was HK\$40,098,000 in the current year (2003: HK\$22,633,000) which represented an increment of 77%. The significant improvement in turnover was partly attributed to the fact that turnover in last year was slack amid the outbreak of the SARS and partly attributed to the active effort in the current year by the Group in widening its customers base to cover arrival tourists from the Mainland China since July 2004.
2. Gross profit for the year was HK\$27,512,000 (2003: HK\$14,417,000) which represented a 91% increment from last year. The greater magnitude of increment in gross profit than turnover was mainly attributed to the improvement in the gross profit margin from 64% in last year to 69% in the current year.
3. There was a turnaround from net loss from ordinary activities attributable to shareholders of HK\$5,049,000 in last year to the current year net profit from ordinary activities attributable to shareholders of HK\$576,000.
4. Earnings per share is HK0.45 cent.

## RESULTS

The directors of the Company present herewith the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2004, together with the comparative figures for the corresponding period in 2003, as follows:

### Consolidated Profit and Loss Account

	<i>Notes</i>	<b>2004</b> <b>HK\$'000</b>	2003 <i>HK\$'000</i>
TURNOVER	3	<b>40,098</b>	22,633
Cost of sales		<u><b>(12,586)</b></u>	<u>(8,216)</u>
Gross profit		<b>27,512</b>	14,417
Other revenue and gains		<b>914</b>	73
Selling and distribution costs		<b>(16,018)</b>	(8,153)
General and administrative expenses		<u><b>(11,784)</b></u>	<u>(11,402)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	4	<b>624</b>	(5,065)
Finance cost	5	<u><b>(48)</b></u>	<u>(17)</u>
PROFIT/(LOSS) BEFORE TAX		<b>576</b>	(5,082)
Tax	6	<u><b>—</b></u>	<u>33</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><b>576</b></u>	<u>(5,049)</u>
DIVIDENDS	7	<u><b>—</b></u>	<u>4,698</u>
EARNINGS/(LOSS) PER SHARE	8		
— Basic, HK cents		<u><b>0.45</b></u>	<u>(4.07)</u>
— Diluted, HK cents		<u><b>0.43</b></u>	<u>N/A</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\$0.10 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 consolidated financial statements 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 years 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.

## **2. Segment Information**

During the year, 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. All significant intra-group transactions have been eliminated on consolidation.

#### 4. Profit/(Loss) From Operating Activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Cost of inventories sold	12,586	6,577
Staff costs (excluding directors' remuneration):		
Wages and salaries	7,097	5,354
Retirement benefits scheme contributions	324	241
	<u>7,421</u>	<u>5,595</u>
Auditors' remuneration	188	360
Depreciation	789	641
Amortisation of other assets*	15	14
Provision/(overprovision) for inventories	(850)	1,000
Write-off of bad debts	0	56
Minimum lease payments under operating lease in respect of land and building	1,573	1,560
Loss on fixed assets written off	2	—
Interest income	(1)	(71)
Exchange gains, net	(1)	(2)
	<u>(1)</u>	<u>(2)</u>

\* *The amortisation of other assets for the year is included in "General and administrative expenses" on the face of the consolidated profit and loss account.*

#### 5. Finance Cost

Finance cost represents interest on a bank loan (2003: interest on a finance lease).

#### 6. Tax

	<b>Group</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current — Hong Kong		
Charge for the year	—	—
Overprovision in the prior year	—	(33)
	<u>—</u>	<u>(33)</u>
Total tax credit for the year	<u>—</u>	<u>(33)</u>

No provision for Hong Kong profits tax has been made for the year as companies within the Group have no assessable profits or have accumulated tax losses brought forward which exceed the estimated assessable profits for the year.

A reconciliation of the tax expense/(income) applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense/(income) at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates, are as follows:

	<b>Group</b>			
	<b>2004</b>		2003	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Profit/(Loss) before tax	<b>576</b>		(5,082)	
Tax at Hong Kong profits tax rate of 17.5% (2003: 17.5%)	<b>101</b>	<b>17.5</b>	(889)	(17.5)
Adjustments in respect of current tax of previous years	—	—	(33)	(0.6)
Income not subject to tax	<b>(1)</b>	<b>(0.2)</b>	(13)	(0.2)
Expenses not deductible for tax	<b>2</b>	<b>0.4</b>	16	0.3
(Decrease)/Increase in deferred tax assets not recognised during the year	<b>(116)</b>	<b>(20.1)</b>	968	19.0
Others	<b>14</b>	<b>2.4</b>	(82)	(1.6)
	<u>—</u>	<u>—</u>	<u>(33)</u>	<u>(0.6)</u>
Tax expense/(income) and effective tax rate for the year				

## 7. Dividends

	<i>Notes</i>	<b>2004</b>	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
Special dividend	(i)	<u>—</u>	<u>4,698</u>

*Notes:*

- (i) On 12 May 2003, a special dividend of HK\$4,698,000, representing HK3.67 cents per share of the Company, in respect of the year ended 31 December 2003 was paid by the Company, out of the Company's distributable reserves, to the shareholders whose names appear on the register of members of the Company on 30 April 2003.

No dividend was proposed or paid by the Company during the year ended 31 December 2004.

## 8. Earnings/(Loss) Per Share

### (a) *Basic earnings/(loss) per share*

The calculation of basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$576,000 (2003: net loss of HK\$5,049,000) and the weighted average of 128,421,000 shares of the Company (2003: 124,072,000 shares of the Company, calculated based on the assumption that the Group Reorganisation as further detailed in note 1 to the financial statements had been completed on 1 January 2003).

### (b) *Diluted earnings/(loss) per share*

The calculation of diluted basic earnings/(loss) per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$576,000 and the weighted average number of ordinary shares used in the calculation is 128,421,000 ordinary shares in issue during the year and the weighted average of 6,122,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

No diluted loss per share has been presented for the year ended 31 December 2003 as the outstanding share options had an anti-dilutive effect on the basic loss per share for the year.

## 9. Reserves

	<i>Notes</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Contributed surplus</b> <i>HK\$'000</i>	<b>Retained profits</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Group					
At 1 January 2003		—	21,177	12,514	33,691
Issue of shares		23,040	—	—	23,040
Capitalisation issue of shares		(10,239)	—	—	(10,239)
Share issue expenses		(9,137)	—	—	(9,137)
Net loss from ordinary activities attributable to shareholders		—	—	(5,049)	(5,049)
Special 2003 dividend	<i>11</i>	—	—	(4,698)	(4,698)
At 31 December 2003 and 1 January 2004		3,664	21,177	2,767	27,608
Net profit from ordinary activities attributable to shareholders		—	—	576	576
<b>At 31 December 2004</b>		<b><u>3,664</u></b>	<b><u>21,177</u></b>	<b><u>3,343</u></b>	<b><u>28,184</u></b>

## 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.

During the year, the Group obtained the approvals from the Company's shareholders in an extraordinary general meeting ("EGM") held on 8 June 2004, the circular setting out the details of the resolutions were despatched to the shareholders on 11 May 2004 (the "Circular"), for diverting part of net proceeds raised from listing of the Company's shares in February 2003, to extend the retail business to cover arrival tourists from the Mainland China.

After renovation of certain sections of the existing retail outlet, additions of inventory, recruitment and training of new staffs, the Group has commenced retailing of jewellery products to tourists from the Mainland China from July 2004 onwards.

Number of arrival visitors to Hong Kong as extracted from the Hong Kong Tourism Board ("HKTB") publications:

<b>Year 2004</b>	<b>From Japan</b>	<b>From China</b>	<b>Total</b>
First Quarter	220,047	2,919,108	4,935,200
Second Quarter	256,814	2,749,023	5,077,418
Third Quarter	317,836	3,311,344	5,745,474
Fourth Quarter	331,553	3,266,387	6,052,538
Total	<u>1,126,250</u>	<u>12,245,862</u>	<u>21,810,630</u>
Year 2003	<u>867,160</u>	<u>8,467,211</u>	<u>15,536,839</u>
% increment	↑ 30%	↑ 45%	↑ 40%

Although the total number of arrival visitors to Hong Kong showed a swiftly increase of 40% in 2004 over the last year, the operating environment in the first quarter of 2004 was in fact tough. The aftermaths of SARS in 2003 together with the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004 had undermined the visitors' confidence in travelling to Hong Kong.



Nevertheless, the visitors' confidences were sooner recovered in the second quarter of 2004 when it was evidenced that Hong Kong has a high standard of public health and safety precautions as maintained by the Hong Kong medical workers and there were no recurrence of bird flu or SARS infection case in Hong Kong in 2004. Together with the Government's whole-hearted efforts in promoting Hong Kong for travel, shopping and pleasure through a series of prolific events in attracting tourists, the number of arrival visitors went into take-off stage again from the second quarter of 2004 onwards.

### **Turnover**

Turnover was HK\$40,098,000 in the current year (2003: HK\$22,633,000) which represented an increment of 77%. The significant improvement in turnover was partly attributed to the fact that turnover in last year was slack amid the outbreak of the SARS and partly attributed to the active effort in the current year by the Group in widening its customers base to cover arrival tourists from the Mainland China since July 2004.

### **Gross profit**

Gross profit for the year was HK\$27,512,000 (2003: HK\$14,417,000) which represented a 91% increment from last year. The greater magnitude of increment in gross profit than turnover was mainly attributed to the improvement in the gross profit margin from 64% in last year to 69% in the current year.

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

There was a turnaround from net loss from ordinary activities attributable to shareholders of HK\$5,049,000 in last year to the current year net profit from ordinary activities attributable to shareholders of HK\$576,000.

It was the tough operating environment in the first quarter of 2004 that led to a net loss from ordinary activities attribute to shareholders in that quarter as certain administrative expenses and staff costs were fixed and unavoidable.

Whilst in the middle of the year, initial setup cost in the areas of recruitment, training and renovation for the retailing business to the arrival tourists from Mainland China had also undermined of the Group's profitability as that section was not operating in the economy of scale at the start-up stages.

Although turnover as contributed by the customers from the Mainland China tourists has accounted for 9.5% of the Group's total turnover, operating expenses of that section were comparatively high in term of the turnover of that section could be generated.

As a result of the above compensating effects, net profit from ordinary activities attributable to shareholders was not as well performed as those of the turnover and gross profit.

## **BUSINESS OUTLOOK AND PROPECTS**

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.

Since the adoption of IVS in July 2003, the number of arrival visitors from the Mainland China has always been reaching record high with around 1 million per month especially in the high seasons. 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 the Mainland China tourists are (1) fine jewellery (2) cosmetics, and (3) cameras and other home electronics. Moreover, the average spending by Mainland China visitors are equally strong as those from Japan and Taiwan.

The Group has extended its retail business to cover tourists from Mainland China since July 2004 and the proportion of turnover from the Mainland China tourists was about 9.5% of the total turnover. If we annualized the amount for analysis purpose, it would be around 19% of the Group’s total turnover. It is expected that there will be further up in turnover proportion from Mainland China tourists when the Tung Chung cable car connecting to the Big Buddha and Disneyland open in 2005.

Looking ahead, Hong Kong will have excellent conditions for both infrastructural and outbound connections in facilitation of tourism. HKTB will continue to fill a number of prolific entertainment events in enriching Hong Kong’s cultural, scenic and cuisine attractions from month to month for attracting tourists all over the world to Hong Kong. In addition to the attractions mentioned above, the adjacent cites of Hong Kong that will be hosting certain international events like the East Asian Games by Macau in 2005 and the Olympic Games by Beijing in 2008 will also increase the overall volume of visitors to Asia and benefiting Hong Kong and the Group’s sales growth as well. 2005 will definitely be a year of tourism prosperity and the Group is optimistic about its future results.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2004, the Group had total assets of approximately HK\$45.5 million, including cash and bank balances of approximately HK\$9.1 million. The Group will continue to finance its operations from its sales operations.

With its net current assets of approximately HK\$38.1 million, current ratio of 9.7 and quick ratio of 3.2, the Group remained in a financially liquid position as at 31 December 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 did not have any bank borrowing or bank overdrafts as at 31 December 2004.

The Group's gearing ratio defined as total interest-bearing debt to shareholders' fund was 0% as at 31 December 2004 (2003: 2.7%).

## OTHER RATIOS

The following ratios were further presented for reviewing the Group's performance:

	2004	2003	2002	2001	2000
Return on Capital Employed*	1.4%	(12.6%)	36.6%	47.6%	59.6%
Current Ratio**	<u>9.7</u>	<u>10.1</u>	<u>8.8</u>	<u>1.4</u>	<u>1.2</u>

\* *Net profit before tax divided by Shareholders' equity.*

\*\* *Current assets divided by current liabilities.*

Historically, the Group maintained a strong net current assets position with current ratios keeping at the high size.

After a tough year of negative return on capital employed in 2003 as resulted from of the outbreak of SARS, the Group reverted to positive return on capital employed again in the current year.

## EMPLOYEE INFORMATION

Number of staff (excluding 2 executive directors) as at the year ended date 31 December 2004 was 77 (2003: 53), who are all working in Hong Kong.

Total staff costs (excluding directors' remuneration), including retirement benefits scheme contributions for the year ended 31 December 2004 amounted to approximately HK\$7,421,000 (2003: HK\$5,595,000). The Group pays its employees based on their performance, experience and the prevailing industry practice.

Each of the two executive directors has, on 5 February 2003, entered into a service agreement with the Company and is entitled to an annual performance related discretionary bonus (the "Bonus"). The Bonus will be determined by the Board of Directors provided that all bonus payments to be made to the executive directors of the Company in each relevant financial year of the Company shall not exceed 10% of the Group's audited consolidated profits after tax as indicated in the Group's annual audited consolidated financial statements for the relevant financial year.

(i) To continue to stay ahead of its competitors, (ii) to attract, retain and motivate talented employees, officers, advisers and business consultants striving towards the success of the Group, (iii) to recognise the contribution of certain directors, employees and shareholders of any member of the Group to the growth of the Group and/or to the listing of Shares on GEM, the Company had adopted a pre-IPO share option plan (the “Pre-IPO Share Option Plan”) and a Share Option Scheme (collectively the “Schemes”) by written resolutions passed by the Shareholders on 5 February 2003, further details of the Schemes can be referred to the Report of the Directors and note 21 to the financial statements.

## **CAPITAL STRUCTURE**

Since the listing of the Company’s shares on the GEM of the Stock Exchange on 26 February 2003, except for the exercise of share options by the eligible persons pursuant to the Pre-IPO Share Share Option Plan during the year, 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 year.

## **MATERIAL ACQUISITIONS AND DISPOSALS/FUTURE PLANS FOR MATERIAL INVESTMENTS**

Except for those set out in the Prospectus and the annual report 2004, the Company and the Group had no material acquisitions or disposals nor plans for material investments or capital assets.

## **EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES**

For the year ended 31 December 2004, approximately 74% of the Group’s income was denominated in Hong Kong dollars or US dollars, approximately 21% in denominated in Japanese Yen and approximately 5% denominated in Renminbi. For the same period, over 95% of the Group’s expenditure was denominated in Hong Kong dollars, with the remaining denominated in Japanese Yen and Australian dollars. The Group received cash in Japanese Yen, Hong Kong dollars, Reminbi and US dollars from its retail operations in the approximate proportion of 56%, 32%, 10% and 2%, respectively for the year ended 31 December 2004. The Group generally charges a small premium over the market exchange rate if the customer pays in Japanese Yen, and converts the Japanese Yen 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.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Other than in connection with the Company's initial public offering on the GEM of the Stock Exchange on 26 February 2003, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

## **DISTRIBUTABLE RESERVES**

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the provisions of the Companies Law of the Cayman Islands, amounted to HK\$31,572,000.

## **CONTINGENT LIABILITIES**

As at 31 December 2004, the directors of the Company were not aware of any material contingent liabilities.

## **SPONSOR'S/COMPLIANCE ADVISER'S INTERESTS**

As notified by the Company's sponsor, SBI E2-Capital (HK) Limited ("SBI E2-Capital") whose service was terminated on 4 March 2004 and the Company's sponsor and compliance adviser, Celestial Capital Limited ("CASH"), none of them or any of their 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 December 2004 and the date of this report respectively.

Pursuant to the agreement dated 10 February 2003 entered with the Company, CASH received and will receive, fees for acting as the Company's retained sponsor and compliance adviser until 31 December 2005 or until such agreement is terminated upon the terms and conditions set out therein whereas SBI E2-Capital received fees for acting as the Company's retained sponsor up to their service termination date of 4 March 2004.

## **COMPETING INTEREST**

Saved as those disclosed in the Prospectus and this report, as at 31 December 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 5.28 and 5.29 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 financial statements for the year ended 31 December 2004 have been reviewed by the audit committee, who are of the opinion that such statements 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 9 times, reviewing the Company's and the Group's reports, announcements, and financial statements, and 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 5.34 to 5.45 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 26 February 2003.

By order of the Board  
**Lai Fai International Holdings Limited**  
**Li Shui**  
*Chairman*

Hong Kong, 25 February 2005

*As at the date of this announcement, 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.*

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