
THIS DOCUMENT REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this document or the offer contained herein, 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 document and the accompanying form(s) to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this document, 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 document.

STANDBROOK ENTERPRISES LIMITED

*(Incorporated in the British Virgin Islands
with limited liability)*



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)

MANDATORY UNCONDITIONAL CASH OFFER

BY

KINGSWAY FINANCIAL SERVICES GROUP LIMITED

ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
THE SHARE OPTIONS OF

LAI FAI INTERNATIONAL HOLDINGS LIMITED

(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)

Financial adviser to the Offeror



KINGSWAY CAPITAL LIMITED

Independent financial adviser to the Independent Board Committee of
Lai Fai International Holdings Limited



AMS Corporate Finance Limited

A letter from the Board is set out on pages 5 to 12 of this document.

A letter of advice from AMS containing its opinion and advice to the Independent Board Committee of the Company is set out on pages 24 to 38 of this document. A letter from the Independent Board Committee of the Company to the Independent Shareholders and the Option Holders is set out on page 23 of this document.

A letter from Kingsway Financial containing, among other things, details of the terms of the Offer is set out on pages 13 to 22 of this document.

The procedure for acceptance and settlement of the Offer is set out in Appendix I to this document and in the accompanying form of acceptance and transfer for the Offer Shares and form of acceptance for the Share Options. Acceptances of the Offer for the Offer Shares must be received by Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong by no later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce. Acceptances of the Offer for the Share Options must be received by the Company at the Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong by no later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce.

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

27th April, 2005

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.

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 is 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 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.

CONTENTS

	<i>Page</i>
Expected timetable	iii
Definitions	1
Letter from the Board	5
Letter from Kingsway Financial	13
Letter from the Independent Board Committee	23
Letter from AMS	24
Appendix I — Further terms of the Offer	39
Appendix II — Financial information regarding the Group	47
Appendix III — General information	70

EXPECTED TIMETABLE

Opening date of the Offer	Wednesday, 27th April, 2005
Latest time and date for acceptance of the Offer	4:00 p.m. on Wednesday, 18th May, 2005
Closing date of the Offer (<i>Note 1</i>)	Wednesday, 18th May, 2005
Announcement in respect of the closing of the Offer and acceptances under the Offer to appear on GEM website on	Thursday, 19th May, 2005
Latest date for posting of remittances for the amounts due under the Offer in respect of valid acceptances (<i>Note 2</i>)	Friday, 27th May, 2005

Notes:

1. The Offer, which is unconditional, will be closed on Wednesday, 18th May, 2005 unless the Offeror revises or extends the Offer in accordance with the Takeovers Code. The Offeror will issue a teletext announcement through the Stock Exchange by 7:00 p.m. on Wednesday, 18th May, 2005 stating whether the Offer has been closed, revised, extended or has expired. An announcement to that effect will be published on the GEM website on the next business day. For further details, please refer to Appendix I to this composite offer document.
2. The consideration payable for the Shares tendered under the Offer and the Share Options agreed to be cancelled under the Offer will be paid as soon as practicable but in any event within 10 days after the receipt by the Registrar and the Company of the requisite documents from the accepting Shareholders and Option Holders, respectively.
3. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code.

All time references contained in this document refer to Hong Kong time.

DEFINITIONS

In this document, the following expressions have the meanings respectively set opposite them unless the context otherwise requires:

“AMS”	AMS Corporate Finance Limited, a corporation licensed under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee;
“Artfolio”	Artfolio Corporation (being the holding company of the Offeror), a company incorporated in Japan, is an 84.02% owned subsidiary of Softbank Investment Corporation (a company incorporated in Japan and the shares of which are listed on the Tokyo Stock Exchange), which is in turn owned (as at the Latest Practicable Date) as to approximately 38.20% by SBF;
“associate(s)”	has the meaning ascribed thereto under the GEM Listing Rules;
“Best Perfect”	Best Perfect International Limited, a company incorporated in the British Virgin Islands with limited liability, a Vendor, and a Sale Optionholder, is owned by Mr. Li as to 91.2% and by Mr. Lee You (a Director and the brother of Mr. Li) as to 8.8%;
“Board”	the board of Directors;
“Company”	Lai Fai International Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on GEM;
“Completion”	completion of the sale and purchase of the Sale Shares and the cancellation of the Share Options held by Best Perfect and Mr. Kitao under the Sale and Purchase Agreement;
“composite offer document”	this composite offer and response document dated 27th April, 2005 relating to the Offer;
“Director(s)”	director(s) of the Company;
“disinterested Share(s)”	Share(s) other than those which are owned by the Offeror or persons acting in concert with it, and “disinterested Shareholder(s)” shall be construed accordingly;

DEFINITIONS

“Executive”	the executive director of the Corporate Finance Division of the SFC or any of his delegates;
“GEM”	the Growth Enterprise Market of the Stock Exchange;
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM;
“Group” and “Group Company”	the Company and its subsidiaries, and “Group Company,” “Group Companies” and member(s) of the Group shall be construed accordingly;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC;
“Independent Board Committee”	a committee of the Board comprising the three independent non-executive Directors constituted to advise the Independent Shareholders and the Option Holders in connection with the Offer;
“Independent Shareholders”	Shareholders other than the Offeror and parties acting in concert with it;
“Kingsway Capital”	Kingsway Capital Limited, the financial adviser to the Offeror in relation to the Offer and a licensed corporation under the Securities and Futures Ordinance;
“Kingsway Financial”	Kingsway Financial Services Group Limited, a licensed corporation under the Securities and Futures Ordinance and a fellow subsidiary of Kingsway Capital;
“Last Trading Day”	1st April, 2005, being the last trading day of the Shares on the Stock Exchange immediately preceding the suspension of trading in the Shares pending the release of the joint announcement dated 7th April, 2005;
“Latest Practicable Date”	25th April, 2005, being the latest practicable date prior to the printing of this composite offer document for ascertaining certain information referred to in this composite offer document;
“Listing”	the listing of the Shares on GEM, which commenced on 26th February, 2003;

DEFINITIONS

“Mr. Kitao”	Mr. Yoshitaka Kitao, a Director, a Vendor and a Sale Optionholder;
“Mr. Li”	Mr. Li Shui, a Director and a Vendor;
“Offer”	the unconditional cash offer to be made by Kingsway Financial on behalf of the Offeror in accordance with the Takeovers Code to acquire all the issued Shares (including any Shares that may fall to be issued under any Share Option prior to the close of such offer) not already owned by the Offeror and the parties acting in concert with it, and to pay a cash amount (being the see through price) to the Option Holders for each Share Option held by them in consideration of their agreeing to cancel their Share Options;
“Offer Period”	the period from 7th April, 2005, the date when the joint announcement was made by the Offeror and the Company;
“Offer Shares”	the Shares subject to the Offer;
“Offeror”	Standbrook Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly owned subsidiary of Artfolio;
“Option Holders”	holders of the Share Options;
“PRC”	the People’s Republic of China, which for the purposes of this document shall exclude Hong Kong, Macau and Taiwan;
“Pre-IPO Share Option Scheme”	the share option scheme of the Company approved by written resolutions of the Shareholders on 5th February, 2003;
“Registrar”	Tengis Limited, the Hong Kong branch share registrar of the Company;
“Relevant Period”	the period commencing on the date falling six months prior to the commencement date of the Offer Period and ending on the Latest Practicable Date;
“Sale and Purchase Agreement”	sale and purchase agreement dated 7th April, 2005 entered into between the Vendors, the Offeror and Artfolio in relation to, inter alia, the sale and purchase of the Sale Shares and the cancellation of the Share Options held by Best Perfect and Mr. Kitao;

DEFINITIONS

“Sale Optionholders”	Best Perfect and Mr. Kitao, being the holders of 2,005,000 Share Options and 650,000 Share Options before Completion, respectively;
“Sale Shares”	64,732,800 Shares;
“SBF”	Softbank Finance Corporation, a company incorporated in Japan and being one of the Vendors, is a wholly-owned subsidiary of Softbank Corp (a company incorporated in Japan and the shares of which are listed on the Tokyo Stock Exchange);
“Securities and Futures Ordinance”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong;
“SFC”	the Securities and Futures Commission of Hong Kong;
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company;
“Share Option(s)” or “Option(s)”	the share option(s) granted under the Company’s Pre-IPO Share Option Scheme, further details of which are set out in the paragraph headed “Share Options” in the letter from the Board in this document;
“Share Option Scheme”	the share option scheme of the Company approved by written resolutions of the Shareholders on 5th February, 2003, which became effective on 26th February, 2003;
“Shareholders”	holders of Shares;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers; and
“Vendors”	Best Perfect, SBF, Mr. Li and Mr. Kitao.

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)

(Stock Code: 8183)

Executive Directors:

Mr. Li Shui (*Chairman*)

Mr. Lee You

Non-executive Directors:

Mr. Yoshitaka Kitao

Mr. Yu Kam Kee, Lawrence

Independent Non-executive Directors:

Mr. Ho Hou Chiu, William

Mr. Mak Tak Cheong, Edmund

Mr. Che King Lun, Frankly

Registered Office:

Century Yard, Cricket Square

Hutchins Drive

P.O. Box 2681 GT

George Town

Grand Cayman

Cayman Islands

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

27th April, 2005

To the Independent Shareholders and the Option Holders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
THE SHARE OPTIONS OF
LAI FAI INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

By an announcement dated 7th April, 2005, it was jointly announced by the Company and the Offeror that on 7th April, 2005, the Offeror (on the one part) and, inter alia, the Vendors (on the other part) entered into a conditional sale and purchase agreement, pursuant to which the

LETTER FROM THE BOARD

Vendors had agreed to, inter alia, sell and the Offeror had agreed to purchase the Sale Shares, at HK\$0.80 per Share, subject to the terms and conditions of the Sale and Purchase Agreement, representing approximately 50.20% of the total issued share capital of the Company.

Shares owned by the Offeror at Completion

The Completion took place on 12th April, 2005. As such, the Offeror (and its concert parties) beneficially owned 92,688,000 Shares, representing approximately 71.88% of the total issued share capital of the Company as at the Latest Practicable Date. Under Rule 26.1 of the Takeovers Code, the Offeror is required to make an unconditional mandatory cash offer to acquire all the issued Shares not already owned, or agreed to be acquired, by the Offeror (and its concert parties).

Share Options

The Company adopted the Pre-IPO Share Option Scheme before the Listing. It has also adopted the Share Option Scheme, which became effective upon Listing, but no options have been granted under the Share Option Scheme. The Company will not grant any options under the Share Option Scheme during the offer period in relation to the Offer.

As at the Latest Practicable Date, there were in total 1,095,000 outstanding Share Options held by the Option Holders under the Pre-IPO Share Option Scheme entitling the holders thereof to subscribe for 1,095,000 new Shares at the subscription price of HK\$0.10 per Share during the periods set out below:

	Number of Share Options
Share Options which are exercisable now and will lapse on 26th August, 2005	545,000
Share Options which are exercisable now and will lapse on 26th February, 2006	<u>550,000</u>
	<u><u>1,095,000</u></u>

The purpose of this composite offer document is to provide you with, inter alia, information relating to the Group and the Offer. The principal terms of the Offer are set out in the letter from Kingsway Financial on pages 13 to 22 of the composite offer document and further terms of the Offer and other information required by the Takeovers Code are set out in the appendices to the composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and, or the form for acceptance for the Share Options. The letter from AMS containing its advice to the Independent Board Committee in relation to the Offer is set out on pages 24 to 38 of the composite offer document.

LETTER FROM THE BOARD

THE OFFER

Kingsway Financial is making the Offer on behalf of the Offeror, subject to the terms set out in the letter from Kingsway Financial on pages 13 to 22 of the composite offer document and in Appendix I to the composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and, or the form of acceptance for the Share Options, to acquire all the issued Shares not already owned by the Offeror and parties acting in concert with it, and to offer to pay a cash amount (being the see through price) to the Option Holders for each Share Option held by them in consideration of their agreeing to cancel their Share Options, on the following bases:

For each Share **HK\$0.80 payable in cash**

For each Share Option **HK\$0.70 payable in cash**

Currently, there are 128,945,000 Shares in issue and 1,095,000 Share Options outstanding. Accordingly, there will be 36,257,000 Shares (representing approximately 28.12% of the total issued share capital of the Company) and 1,095,000 Share Options (assuming that none of these Share Options will be exercised as from the Latest Practicable Date) subject to the Offer.

Based on 128,945,000 Shares in issue on the Latest Practicable Date, the Offer values the entire issued share capital of the Company at approximately HK\$103,156,000 (assuming that no Share Options are exercised from the Latest Practicable Date and no Shares are issued in connection therewith).

By accepting the Offer, Shareholders will sell their Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions declared, made or paid on or after 7th April, 2005, being the date of the joint announcement. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. By accepting the Offer, the Option Holders will agree to cancel their Share Options for the consideration set out above.

Stamp duty at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Offer Shares in respect of the relevant acceptances will be payable by the Shareholders. The Offeror will pay for such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to Shareholders on acceptance of the Offer.

LETTER FROM THE BOARD

INFORMATION ON THE COMPANY

Directors and management of the Group

Upon closing of the Offer, the existing two executive Directors, two non-executive Directors and three independent non-executive Directors intend to remain as Directors. The management role of the executive Directors is expected to remain unchanged upon closing of the Offer.

In addition, the Offeror intends to nominate an additional Director to the Board and such appointment will take effect after the earliest date permitted under the Takeovers Code, the GEM Listing Rules and laws applicable to the Company.

Apart from the above, the Offeror may, at the appropriate time, nominate additional new Directors to the Board. Further announcement will be made upon such appointment. The Directors and the Offeror believe that the aforesaid proposed change in the board composition of the Company will not have any adverse impact on the Group. Your attention is also drawn to the letter from Kingsway Financial contained in the composite offer document.

Save as disclosed above, it is the intention of the Offeror that there will be no material change in the management and employees of the Group as a result of the Offer.

Business of the Group

The Company is an investment holding company and its operating subsidiaries are principally engaged in sourcing, manufacture and retail and wholesale of jewellery products in Hong Kong. The jewellery products of the Group are mainly sold to Japanese tourists, most of whom are referred to the Group by inbound Japanese tour operators in Hong Kong. In addition, since July 2004, the Group has extended its retail business to tourists from mainland China.

Intention of the Offeror

Following the completion of the Offer and if the Company remains listed on GEM, it is the intention of the Offeror that the existing principal activities of the Group will remain unchanged. The Offeror intends to continue the existing businesses of the Group and has no intention to re-deploy the fixed assets or to make any material changes to the existing management and employees of the Group by reason only of the Offer. Further, the Offeror has no intention to inject any assets or businesses into the Group within one year after the close of the Offer. In the event that there is any injection of assets or businesses by the Offeror (or its associates) into the Group within 24 months after Completion, the Stock Exchange may treat the Company as if it were a new listing applicant, and the Offeror will comply with the relevant requirements under the GEM Listing Rules. Notwithstanding the foregoing, the Offeror intends to review the business operations of the Group following completion of the Offer and to implement any appropriate measures to rationalise such business operations where it is in the interests of the Group to do so.

LETTER FROM THE BOARD

Your attention is drawn to the letter from Kingsway Financial in the composite offer document, which also contains information on and the intention of the Offeror.

Independent Board Committee

An Independent Board Committee comprising Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly, all being independent non-executive Directors has been established to advise the Independent Shareholders and Option Holders in relation to the Offer. The Board has also appointed AMS as the independent financial adviser to advise the Independent Board Committee in relation to the Offer.

Mr. Li, an executive Director is one of the Vendors and, together with Mr. Lee You, an executive Director, are beneficial owners of Best Perfect, another Vendor. Mr. Kitao, an executive Director, is a Vendor and a director and a holder of shares and options in companies acting in concert with the Offeror. Mr. Yu Kam Kee, Lawrence, a non-executive Director, has confirmed that certain of his associates had business dealing with the Company. As such, Mr. Li, Mr. Lee You, Mr. Kitao and Mr. Yu Kam Kee, Lawrence are not regarded as appropriate to give independent advice to the Independent Shareholders and the Option Holders in relation to the Offer. Accordingly, the Independent Board Committee, comprising the three independent non-executive Directors, namely Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly, has been formed to advise the Independent Shareholders and the Option Holders as to whether terms of the Offer are fair and reasonable in so far as the Independent Shareholders and the Option Holders are concerned.

The letter from the Independent Board Committee containing its advice to the Independent Shareholders and the Option Holders on the above matters is set out on page 23 of the composite offer document. The letter from AMS containing its advice to the Independent Board Committee on the above matters is set out on pages 24 to 38 of the composite offer document.

Financial Results

The audited consolidated net profit (loss) from ordinary activities attributable to Shareholders of the Group for the years ended 31st December, 2003 and 31st December, 2004 were approximately (HK\$5,049,000) and HK\$576,000, respectively. The audited consolidated net asset value of the Group as at 31st December, 2003 and 31st December, 2004 were approximately HK\$40,408,000 and HK\$41,078,000, respectively. The net asset value per share as at 31st December, 2003 and 31st December, 2004 were HK\$0.32 and HK\$0.32, respectively.

Your attention is drawn to Appendix II to the composite offer document which contains the financial results of the Group for the three years ended 31st December, 2004 and the audited financial statements of the Group for the two years ended 31st December, 2004.

LETTER FROM THE BOARD

COMPULSORY ACQUISITION OR MAINTAINING THE LISTING STATUS OF THE COMPANY

The Directors understand that to the extent applicable and pursuant to the compulsory acquisition power under Section 88 of the Companies Law (2004 Revision) of the Cayman Islands, if the Offeror acquires the prescribed percentage of Shares (being not less than 90% of the Shares affected by the Offer) as required by Section 88 of the Companies Law (2004 Revision) of the Cayman Islands, the Offeror may consider exercising the compulsory acquisition power in accordance with Section 88 of the Companies Law (2004 Revision) of the Cayman Islands.

According to Rule 15.6 of the Takeovers Code, as the Offeror may consider exercising its rights under the relevant provisions of the Companies Law (2004 Revision) of the Cayman Islands to compulsorily acquire those Shares not acquired by the Offeror under the Offer, the Offer may not remain open for acceptance for more than four months from the posting of the composite offer document, unless the Offeror has by that time become entitled to exercise the power of compulsory acquisition available to it under the Companies Law (2004 Revision) of the Cayman Islands, in which event the Offeror will do so without delay.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Law (2004 Revision) of the Cayman Islands, acceptance of the Offer and purchases (in each case of the disinterested Shares) made by the Offeror and persons acting in concert with it during the period of four months after posting of the composite offer document total 90% of the disinterested Shares.

Furthermore, if the level of acceptances reaches the prescribed level (being not less than 90% of the Shares affected by the Offer) under Section 88 of the Companies Law (2004 Revision) of the Cayman Islands and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatisation of the Company and withdrawal of listing of the Company's securities from GEM pursuant to Rule 9.23 of the GEM Listing Rules, the Company will apply for a suspension of dealings in the securities of the Company from the closing of the Offer up to the withdrawal of listing of the Company's securities from GEM.

In the event that the Offeror does not effect the compulsory acquisition (whether by reason of not having acquired the requisite percentage as required under the Companies Law (2004 Revision) of the Cayman Islands or otherwise), the Offeror may either (i) seek a withdrawal of listing of the Shares from GEM in accordance with the requirements of Rule 9.20 of the GEM Listing Rules and the Takeovers Code (which include (a) with respect to the requirements of the GEM Listing Rules, the approval of the independent Shareholders (being Shareholders other than any controlling Shareholder and its associates) at general meeting passed as a

LETTER FROM THE BOARD

resolution with a majority of at least 75%, and not voted against by 10% (or more), of the votes cast at such meeting, and (b) with respect to the requirements under Rule 2.2 of the Takeovers Code, the approval of Shareholders by means of a resolution at a general meeting with a majority in number representing at least 75% (and not voted against by more than 10%) of the votes attaching to the disinterested Shares voting either in person or by proxy at the meeting must vote in favour of the resolution) and, or privatise the Company by means of a scheme of arrangement; or (ii) the Offeror will either itself or procure the Company to take such steps as are necessary to ensure that the Company maintains an adequate public float so as to comply with the applicable requirements of the GEM Listing Rules.

The Directors have been informed that as the Offeror has not decided whether to maintain the listing of the Company on GEM or to privatise the Company, hence, further announcement will be made in this respect accordingly.

The Stock Exchange has stated that, if less than 25% of the issued Shares are in public hands following the close of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient number of Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained. The Directors, the director of the Offeror and the new director to be nominated by the Offeror and appointed to the Board will jointly and severally agree to undertake to the Stock Exchange to take appropriate steps to ensure that there will be sufficient public float in the Shares if Listing is to be maintained.

RECOMMENDATION

Your attention is drawn to the letter from AMS, the independent financial adviser to the Independent Board Committee, which sets out its recommendation in relation to the Offer and the principal factors considered by it in arriving at its recommendation. Your attention is also drawn to the letter from the Independent Board Committee in the composite offer document which contain the recommendation of the Independent Board Committee as to whether the terms of the Offer are fair and reasonable in so far as Independent Shareholders and Option Holders, respectively, are concerned.

FURTHER INFORMATION

Your attention is drawn to the letter from Kingsway Financial contained in the composite offer document, which contains the details of the terms of Offer, the information on the Offeror and the intention of the Offeror regarding the future of the Group.

LETTER FROM THE BOARD

In considering what action to take in relation to the Offer, Independent Shareholders and Option Holders should consider their own tax position and the related implication in the event they elect to accept the Offer. If in doubt, they should consult their own professional advisers.

Your attention is also drawn to the information set out in the appendices to the composite offer document.

Yours faithfully,
For and on behalf of the Board of
Lai Fai International Holdings Limited
Li Shui
Director and Executive Chairman

Kingsway Group

5th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong



27th April, 2005

To the Independent Shareholders and the Option Holders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
THE SHARE OPTIONS OF
LAI FAI INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

By an announcement dated 7th April, 2005, it was jointly announced by the Company and the Offeror that on 7th April, 2005, the Offeror (on the one part) and, inter alia, the Vendors (on the other part) entered into a conditional sale and purchase agreement, pursuant to which the Vendors had agreed to, inter alia, sell and the Offeror had agreed to purchase the Sale Shares, at HK\$0.80 per Share, subject to the terms and conditions of the Sale and Purchase Agreement, representing approximately 50.20% of the then total issued share capital of the Company.

The Completion took place on 12th April, 2005. As such, as at the Latest Practicable Date, the Offeror and its concert parties beneficially owned 92,688,000 Shares, representing approximately 71.88% of the total issued share capital of the Company, of which 27,955,200 Shares (or approximately 21.68% of the issued share capital of the Company) were held by Artfolio, the holding company of the Offeror. The Offeror is therefore obliged under Rule 26 of the Takeovers Code to make an unconditional mandatory cash offer to acquire all the issued Shares held by the Independent Shareholders. Kingsway Financial is making the Offer on behalf of the Offeror.

As at the Latest Practicable Date, there were 128,945,000 Shares in issue. Accordingly, there are 36,257,000 Shares (representing approximately 28.12% of the total issued share capital of the Company) and 1,095,000 Share Options (assuming that none of these Share Options will be exercised on or after the Latest Practicable Date) subject to the Offer.

LETTER FROM KINGSWAY FINANCIAL

As at the Latest Practicable Date, there were in total 1,095,000 outstanding Share Options held by the Option Holders under the Pre-IPO Share Option Scheme entitling the holders thereof to subscribe for 1,095,000 new Shares at the subscription price of HK\$0.10 per Share during the periods set out below:

	Number of Share Options
Share Options which are exercisable now and will lapse on 26th August, 2005	545,000
Share Options which are exercisable now and will lapse on 26th February, 2006	<u>550,000</u>
	<u><u>1,095,000</u></u>

This letter sets out the detailed terms of the Offer, together with the information on the Offeror and its intention regarding the Group. Further details of the Offer are also set out in Appendix I to the composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance for the Share Options. Your attention is also drawn to the letter from the Board, the letter from the Independent Board Committee to the Independent Shareholders and Option Holders and the letter from AMS to the Independent Board Committee contained in the composite offer document.

THE OFFER

Kingsway Financial is making the Offer on behalf of the Offeror, subject to the terms set out in the composite offer document and in Appendix I to the composite offer document and in the accompanying form of acceptance and transfer for the Offer Shares and the form of acceptance for the Share Options, to acquire all the issued Shares not already owned by the Offeror and parties acting in concert with it, and to offer to pay a cash amount (being the see through price) to the Option Holders for each Share Option held by them in consideration of their agreeing to cancel their Share Options, on the following bases:

For each Share **HK\$0.80 payable in cash**

For each Share Option **HK\$0.70 payable in cash**

The offer price of HK\$0.80 per Share represents:

- (a) a premium of approximately 14.29% over the closing price of HK\$0.70 per Share quoted on GEM on the Last Trading Day;

LETTER FROM KINGSWAY FINANCIAL

- (b) a premium of approximately 14.29% over the average closing price of approximately HK\$0.70 per Share for the 10 trading days up to and including the Last Trading Day;
- (c) a premium of approximately 9.59% over closing price of HK\$0.73 per Share quoted on GEM on the Latest Practicable Date; and
- (d) a premium of 150.00% to the audited net asset value per Share of approximately HK\$0.32 based on the latest published audited consolidated balance sheet of the Company as at 31st December, 2004 and 128,945,000 Shares in issue as at the Latest Practicable Date.

During the six month period preceding the date of the joint announcement setting out the terms of the Offer and up to the Latest Practicable Date, the highest closing price of the Shares on the Stock Exchange was HK\$0.78 per Share (on 8th, 11th to 13th, and 19th April, 2005) and the lowest closing price of Shares on the Stock Exchange was HK\$0.49 per Share (on 11th to 14th October, 2004).

The offer price of HK\$0.80 per Share and HK\$0.70 for each Share Option is the same as the price offered by the Offeror under the Sale and Purchase Agreement to acquire the Shares from the Vendors and to cancel the Share Options by the Sale Optionholders.

By accepting the Offer, Shareholders will sell their Shares free from all liens, claims and encumbrances and with all rights attached, including the rights to receive all dividends and distributions declared, made or paid on or after 7th April, 2005, being the date of the joint announcement. Acceptance of the Offer shall be irrevocable and not capable of being withdrawn, except as permitted under the Takeovers Code. By accepting the Offer, the Option Holders will agree to cancel their Share Options for the consideration set out above.

Stamp duty at a rate of HK\$1.00 for every HK\$1,000 or part thereof of the greater of (i) the consideration payable or (ii) the market value of the Offer Shares in respect of the relevant acceptances will be payable by the Shareholders. The Offeror will pay for such amount of stamp duty on behalf of and for the account of the accepting Shareholders who accept the Offer and such amount will be deducted from the amount payable to Shareholders on acceptance of the Offer.

Total consideration and financial resources

As at the Latest Practicable Date, there were 128,945,000 Shares in issue. Based on such number of Shares in issue and the offer price of HK\$0.80 per Share, the entire issued share capital of the Company is valued at approximately HK\$103.16 million under the Offer (assuming that no Share Options outstanding as at the Latest Practicable Date would be exercised). Apart from the Share Options referred to above, there were no other options, warrants or conversion rights affecting the Shares outstanding as at the Latest Practicable

LETTER FROM KINGSWAY FINANCIAL

Date. Assuming the Offer is accepted in full by the Shareholders and Option Holders (to whom the Offer is made) and none of the Share Options outstanding as at the Latest Practicable Date will be exercised and accordingly no further Shares will be issued pursuant thereto, at the offer price of HK\$0.80 per Offer Share and HK\$0.70 per Share Option, the total amount payable by the Offeror under the Offer will be approximately HK\$29.77 million.

Payment for the acceptances under the Offer is financed by the Offeror from a shareholder's loan from Artfolio, the holding company of the Offeror. The Offeror confirms that payment of interest or repayment of liability will not depend on the business of the Company to a significant extent. Artfolio is a concert party of the Offeror. Kingsway Financial is satisfied that there are sufficient financial resources available to the Offeror to meet the full acceptances of the Offer in respect of the remaining 36,257,000 Shares (representing approximately 28.12% of the total issued share capital of the Company as at the Latest Practicable Date) and 1,095,000 Shares that may be issued upon the exercise in full of the Share Options.

Unconditional Offer

The Offer is unconditional and is not subject to the attainment of any particular level of acceptances in respect of the Offer.

INFORMATION ON THE OFFEROR

The Offeror is a company incorporated in the British Virgin Islands and having its registered office at Commerce Chamber, P.O. Box 2208, Road Town, British Virgin Islands. The Offeror's only business is to make the Offer. The Offeror is wholly owned by Artfolio, a company incorporated in Japan. Artfolio is owned as to 84.02% by Softbank Investment Corporation ("SBI"), a company incorporated in Japan and the shares of which are listed on the First Session of the Tokyo Stock Exchange. As at the Latest Practicable Date, SBI was owned as to approximately 38.20% by SBF, which is in turn wholly owned by Softbank Corp, a company incorporated in Japan and the shares of which are listed on the First Session of the Tokyo Stock Exchange. As at the Latest Practicable Date, Softbank Corp was owned as to approximately 31.5% by Mr. Masayoshi Son.

The sole director of the Offeror is Mr. Sadao Hisaaki, who is also a director of Artfolio. The directors of Artfolio are Mr. Sadao Hisaaki, Mr. Kitao, Mr. Yasutaro Sawada and Mr. Motoyasu Kawanobe. The directors of SBI are Mr. Kitao, Mr. Yasutaro Sawada, Mr. Takashi Nakagawa and Mr. Yasuhiko Sato. The directors of Softbank Corp are Mr. Masayoshi Son, Mr. Kitao, Mr. Ken Miyauchi, Mr. Kazuhiko Kasai, Mr. Masahiro Inoue, Mr. Ronald D. Fisher, Mr. Jun Murai and Mr. Tadashi Yanai. Artfolio is principally engaged in the marketing and distribution of contemporary and antique artworks, including paintings by well-known Japanese and Chinese painters.

LETTER FROM KINGSWAY FINANCIAL

REASONS FOR THE ENTERING INTO OF THE SALE AND PURCHASE AGREEMENT AND MAKING THE OFFER

Artfolio has been a substantial Shareholder (within the meaning of the GEM Listing Rules) since 2002. The entering into of the Sale and Purchase Agreement represented an opportunity for Artfolio to step-up its commitment to the Group. The directors of Artfolio believe that the transaction will be beneficial to both Artfolio and the Company by combining the Group's strong trademark recognition and understanding of Japanese consumers' preference with Artfolio's existing product range and expertise in the retail sale of artworks and craftworks in Japan. Further, the directors of Artfolio believe that the Group's product range is complementary to and can augment Artfolio's existing product offerings. Accordingly, the directors of Artfolio and the Offeror, respectively, believe that it is now an appropriate time to increase Artfolio's shareholding (through the Offeror) in the Company.

Intention of the Offeror

Following the completion of the Offer and if the Company remains listed on GEM, it is the intention of the Offeror that the existing principal activities of the Group will remain unchanged. The Offeror intends to continue the existing businesses of the Group and has no intention to re-deploy the fixed assets or to make any material changes to the existing management and employees of the Group by reason only of the Offer. Further, the Offeror has no intention to inject any assets or businesses into the Group within one year after the close of the Offer. In the event that there is any injection of assets or businesses by the Offeror (or its associates) into the Group within 24 months after Completion, the Stock Exchange may treat the Company as if it were a new listing applicant, and the Offeror will comply with the relevant requirements under the GEM Listing Rules. Notwithstanding the foregoing, the Offeror intends to review the business operations of the Group following completion of the Offer and to implement any appropriate measures to rationalise such business operations where it is in the interests of the Group to do so.

COMPULSORY ACQUISITION OR MAINTAINING THE LISTING STATUS OF THE COMPANY

To the extent applicable and pursuant to the compulsory acquisition power under Section 88 of the Companies Law (2004 Revision) of the Cayman Islands, if the Offeror acquires the prescribed percentage of Shares (being not less than 90% of the Shares affected by the Offer) as required by Section 88 of the Companies Law (2004 Revision) of the Cayman Islands, the Offeror may consider exercising the compulsory acquisition power in accordance with Section 88 of the Companies Law (2004 Revision) of the Cayman Islands.

LETTER FROM KINGSWAY FINANCIAL

According to Rule 15.6 of the Takeovers Code, as the Offeror may consider exercising its rights under the relevant provisions of the Companies Law (2004 Revision) of the Cayman Islands to compulsorily acquire those Shares not acquired by the Offeror under the Offer, the Offer may not remain open for acceptance for more than four months from the posting of the composite offer document, unless the Offeror has by that time become entitled to exercise the power of compulsory acquisition available to it under the Companies Law (2004 Revision) of the Cayman Islands, in which event the Offeror will do so without delay.

Pursuant to Rule 2.11 of the Takeovers Code, except with the consent of the Executive, where the Offeror seeks to acquire or privatise the Company by means of the Offer and the use of compulsory acquisition rights, such rights may only be exercised if, in addition to satisfying any requirements imposed by the Companies Law (2004 Revision) of the Cayman Islands, acceptance of the Offer and purchases (in each case of the disinterested Shares) made by the Offeror and persons acting in concert with it during the period of four months after posting of the composite offer document total 90% of the disinterested Shares.

Furthermore, if the level of acceptances reaches the prescribed level (being not less than 90% of the Shares affected by the Offer) under Section 88 of the Companies Law (2004 Revision) of the Cayman Islands and Rule 2.11 of the Takeovers Code permits a compulsory acquisition and the Offeror proceeds with the privatisation of the Company and withdrawal of listing of the Company's securities from GEM pursuant to Rule 9.23 of the GEM Listing Rules, the Company will apply for a suspension of dealings in the securities of the Company from the closing of the Offer up to the withdrawal of listing of the Company's securities from GEM.

In the event that the Offeror does not effect the compulsory acquisition (whether by reason of not having acquired the requisite percentage as required under the Companies Law (2004 Revision) of the Cayman Islands or otherwise), the Offeror may either (i) seek a withdrawal of listing of the Shares from GEM in accordance with the requirements of Rule 9.20 of the GEM Listing Rules and the Takeovers Code (which include (a) with respect to the requirements of the GEM Listing Rules, the approval of the independent Shareholders (being Shareholders other than any controlling Shareholder and its associates) at general meeting passed as a resolution with a majority of at least 75%, and not voted against by 10% (or more), of the votes cast at such meeting, and (b) with respect to the requirements under Rule 2.2 of the Takeovers Code, the approval of Shareholders by means of a resolution at a general meeting with a majority in number representing at least 75% (and not voted against by more than 10%) of the votes attaching to the disinterested Shares voting either in person or by proxy at the meeting must vote in favour of the resolution) and, or privatise the Company by means of a scheme of arrangement; or (ii) the Offeror will either itself or procure the Company to take such steps as are necessary to ensure that the Company maintains an adequate public float so as to comply with the applicable requirements of the GEM Listing Rules.

LETTER FROM KINGSWAY FINANCIAL

As the Offeror has not decided whether to maintain the listing of the Company on GEM or to privatise the Company, further announcement will be made in this respect accordingly.

The Stock Exchange has stated that, if less than 25% of the issued Shares are in public hands following the close of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the Shares or that there are insufficient number of Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the Shares. In this connection, it should be noted that upon the close of the Offer, there may be insufficient public float for the Shares and therefore trading in the Shares may be suspended until a sufficient level of public float is attained. The Directors, the director of the Offeror and the new director to be nominated by the Offeror and appointed to the Board will jointly and severally agree to undertake to the Stock Exchange to take appropriate steps to ensure that there will be sufficient public float in the Shares if Listing is to be maintained.

PROPOSED CHANGE OF BOARD COMPOSITION OF THE COMPANY

Upon closing of the Offer, the Offeror intends that the existing two executive Directors, two non-executive Directors and three independent non-executive Directors will remain as Directors. The management role of the executive Directors will remain unchanged after closing of the Offer.

In addition, the Offeror intends to nominate an additional Director to the Board and such appointment will take effect after the earliest date permitted under the Takeovers Code, the GEM Listing Rules and laws applicable to the Company. Further announcement will be made in this respect.

Apart from the above, the Offeror may, at the appropriate time, nominate additional new Directors to the Board. Further announcement will be made upon such appointment. The Offeror believes that the aforesaid proposed change in the board composition of the Company will not have any adverse impact on the Group.

Save as disclosed above, it is the intention of the Offeror that there will be no material change in the management and employees of, and their roles within the Group as a result of the Offer.

LETTER FROM KINGSWAY FINANCIAL

ACCEPTANCE AND SETTLEMENT

Procedures for acceptance

The Offer for Shares

For Shareholders, to accept the Offer, you should complete the accompanying **WHITE** form of acceptance and transfer in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer in respect of the Offer Shares. The completed **WHITE** form of acceptance and transfer should then be forwarded, together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) for not less than the number of Shares in respect of which you intend to accept under the Offer, by post or by hand, to the Registrar at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong in an envelope marked “Lai Fai Offer” as soon as possible but in any event not later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance and transfer, share certificate(s), transfer receipt(s) or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

The Offer for Share Options

For Option Holders, to accept the Offer, you should complete the accompanying **YELLOW** form of acceptance in accordance with the instructions printed thereon, which instructions form part of the terms and conditions of the Offer in respect of the Share Options. The completed **YELLOW** form of acceptance should then be forwarded, together with the relevant certificate(s) and/or any document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) relating to the relevant Share Options for not less than the number of Share Options in respect of which you intend to accept under the Offer, by post or by hand, to the Company at the Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong in an envelope marked “Lai Fai Offer” as soon as possible but in any event not later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance, certificate(s) or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) will be given.

General

Your attention is drawn to the further terms of the Offer set out in Appendix I to the composite offer document and in the accompanying **WHITE** or **YELLOW** form. Independent Shareholders with registered addresses outside Hong Kong should pay attention to the section headed “General” in Appendix I to the composite offer document.

LETTER FROM KINGSWAY FINANCIAL

Settlement

The Offer for Shares

Provided that the relevant **WHITE** form of acceptance and transfer and Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Registrar by no later than 4:00 p.m. on 18th May, 2005 (or such later time as the Offeror may determine and announce), a cheque for the amount due to each of the accepting Independent Shareholders in respect of the Shares tendered by them under the Offer, less seller's ad valorem stamp duty payable by them, will be despatched to the Independent Shareholders by ordinary post at their own risk within 10 days following the date on which all the relevant documents are received by the Registrar to render such acceptance complete and valid.

The Offer for Share Options

Provided that the relevant **YELLOW** form of acceptance and certificate(s) and/or other document(s) of title or entitlement (and/or any satisfactory indemnity or indemnities required in respect thereof) are complete and in good order and have been received by the Company by no later than 4:00 p.m. on 18th May, 2005 (or such later time as the Offeror may determine and announce), a cheque for the amount due to each of the accepting Option Holders in respect of the Share Options agreed to be cancelled by them under the Offer will be despatched to the Option Holders by ordinary post at their own risk within 10 days following the date on which all the relevant documents are received by the Company to render such acceptance complete and valid.

Nominee registration and despatch of payment

To ensure equality of treatment of all Independent Shareholders, those registered Independent Shareholders who hold Shares as nominee for more than one beneficial owner should, as far as practicable, treat the holding of each beneficial owner separately. In order for beneficial owners of Shares, whose investments are registered in nominee names, to accept the Offer, it is essential that they provide instructions to their nominees of their intentions with regard to the Offer.

All documents and remittances will be sent to the Independent Shareholders and Option Holders through ordinary post at their own risk. These documents and remittances will be sent to them at their respective addresses as they appear in the register of members (or the register of Share Options as the case may be), or, in the case of joint Shareholders, to the Shareholder whose name appears first in the said register of members, unless otherwise specified in the

LETTER FROM KINGSWAY FINANCIAL

relevant **WHITE** forms of acceptance and transfer completed and returned by the Independent Shareholders (or **YELLOW** forms of acceptance as the case may be). None of the Company, the Offeror, the parties acting in concert with the Offeror, Kingsway Financial and the Registrar or any of their respective directors or officers will be responsible for any loss or delay in transmission of such documents and remittances or any other liabilities that may arise as a result thereof.

TAXATION

Independent Shareholders and Option Holders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of accepting the Offer. It is emphasised that none of the Offeror, the parties acting in concert with the Offeror, Kingsway Capital, Kingsway Financial and the Registrar or any of their respective directors or officers accepts responsibility for any taxation effects on, or liabilities of, any persons as a result of their acceptance of the Offer.

GENERAL

The Independent Shareholders and the Option Holders are advised to read carefully the letter from the Independent Board Committee and the letter from AMS as contained in the composite offer document before deciding whether or not to accept the Offer.

Your attention is also drawn to the further terms of the Offer and the additional information set out in the appendices to composite offer document.

Yours faithfully,
For and on behalf of
Kingsway Financial Services Group Limited
John Tran
Co-Head & Managing Director
Investment Banking



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)

27th April, 2005

To the Independent shareholders and Option Holders

Dear Sir or Madam,

**MANDATORY UNCONDITIONAL CASH OFFER
BY
KINGSWAY FINANCIAL SERVICES GROUP LIMITED
ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ISSUED SHARES AND
THE SHARE OPTIONS OF
LAI FAI INTERNATIONAL HOLDINGS LIMITED
(OTHER THAN THOSE SHARES ALREADY OWNED BY THE OFFEROR AND
PARTIES ACTING IN CONCERT WITH IT)**

We refer to the document of even date with this letter issued by the Company (the “Document”) of which this letter forms part. Terms defined in the Document shall have the same meanings as in this letter unless the context otherwise requires.

We have been appointed by the Board as the Independent Board Committee to consider the Offer. AMS has been appointed as the independent financial adviser to advise us on the Offer.

Your attention is drawn to the letter from the Board and the letter of advice from AMS set out in the Document containing its advice to us, and to the letter from Kingsway Financial set out in the Document containing, among other things, the terms of the Offer.

RECOMMENDATION

Taking into account the terms of the Offer and the advice from AMS, we consider that the terms of the Offer are fair and reasonable in so far as the Independent Shareholders and Option Holders, respectively are concerned and recommend the Independent Shareholders and the Option Holders to accept the Offer (for the Offer Shares or Share Options as the case may be). Independent Shareholders who wish to realise part or all of their holdings should monitor the movement of the price of the Shares carefully before the close of the Offer and should consider selling their Shares in the market if the net proceeds of such sale will be higher in the market than the net amount receivable under the Offer.

Yours faithfully,
Ho Hou Chiu, William
Mak Tak Cheong, Edmund
Che King Lun, Frankly
Independent Board Committee

LETTER FROM AMS



博資財務顧問有限公司
AMS Corporate Finance Limited

20th Floor
Hong Kong Diamond Exchange Building
8-10 Duddell Street
Central, Hong Kong

27th April, 2005

*To the Independent Board Committee of
Lai Fai International Holdings Limited*

Dear Sirs,

UNCONDITIONAL CASH OFFER

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in respect of the Offer, details of which are set out in the document to the Shareholders dated 27th April, 2005 (the “Document”), of which this letter forms part. Unless otherwise stated, terms used in this letter have the same meanings as those defined in the Document.

This letter contains our advice to the Independent Board Committee as to whether the terms of the Offer are fair and reasonable as far as the Independent Shareholders are concerned.

As at the date hereof, the Board comprises two executive Directors, namely Mr. Li Shui and Mr. Lee You, two non-executive Directors, namely Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence, and three independent non-executive Directors, namely Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly. Mr. Li Shui and Mr. Lee You, both executive Directors, are beneficial owners of Best Perfect, which is one of the Vendors. Mr. Yoshitaka Kitao, a non-executive Director, is one of the Vendors. Mr. Yu Kam Kee, Lawrence, a non-executive Director, has disclosed that he is a shareholder and an executive director of Softbank Investment International (Strategic) Limited (a company listed on the Main Board of the Stock Exchange) of which two associated companies had respectively provided financial advisory services and public relation services to the Company in 2003/2004. Therefore, all of the executive and non-executive Directors are presumed to be not independent for the purpose of giving advice to the Independent Shareholders in respect of the Offer. The Independent Board Committee comprising of Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly, being all the independent non-executive

LETTER FROM AMS

Directors, has been established for the purpose of advising the Independent Shareholders on the terms of the Offer. Each of Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly has confirmed that he does not have any conflict of interest in the Offer. Based on such representation, we consider that all three independent non-executive Directors are eligible to be members of the Independent Board Committee to advise the Independent Shareholders in respect of the Offer.

Apart from the normal professional fees payable to us in connection with our appointment as the independent financial adviser to the Independent Board Committee in respect of the Offer, no arrangement exists whereby AMS Corporate Finance Limited will receive any fees or benefits from the Company, the Offeror, or any of their respective associates.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information and representations contained or referred to in the Document and the information and representations provided to us by the Company and the Directors. We have assumed that all information and representations contained or referred to in the Document were true and accurate at the time when they were made and continue to be so at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Company, the Directors or the Offeror in the Document have been arrived at after due and careful consideration.

We consider that we have reviewed sufficient information to enable us to reach an informed view. The Directors and the Offeror have confirmed respectively that there are no other facts not contained in the Document, the omission of which would make any statement in the Document, including this letter, misleading. We have no reason to doubt the truth, accuracy or completeness of the information provided to us by the Company and the Directors. We have not, however, conducted any independent verification of the information provided, nor have we carried out any in-depth investigation into the business and affairs of the Group or the prospects of the markets in which the Group operates.

We have not considered the tax consequences on the Independent Shareholders of acceptance of the Offer since these are particular to their individual circumstances. In particular, Independent Shareholders who are resident overseas or subject to overseas taxes or Hong Kong taxation on securities dealings should consider their own tax positions and, if in any doubt, should consult their own professional advisers.

LETTER FROM AMS

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion regarding the terms of the Offer, we have taken into consideration the following principal factors:

I. The Share Offer

1. *Background information*

The Group is principally engaged in the sourcing, manufacture and retail and wholesale of jewellery products in Hong Kong. The Company became listed on GEM in February 2003 by way of a placing of 32,000,000 Shares (including 6,400,000 old Shares) at HK\$1.00 per Share through which net proceeds of approximately HK\$16.5 million were raised.

The Group's business has since December 1995 been operated in a premises located in Tokwawan, Kowloon, Hong Kong with a total saleable area of approximately 10,063 square feet which houses the Group's product design operation, production workshop, administration office and retail outlet. The jewellery products of the Group include mainly those made of jade, gemstones, diamond and precious metals and are mainly sold to Japanese tourists who are referred to the Group by inbound Japanese tour operators in Hong Kong. The Group also exports its jewellery products to Japan, but such business has not been significant and has represented less than 5% of the Group's total turnover. Following the introduction of the Individual Visit Scheme by Mainland China in July 2003 to allow travelers from certain cities to visit Hong Kong on an individual basis, the Group started exploring the new market opportunity and, as a result, has commenced selling its jewellery products to tourists from Mainland China since July 2004.

The Offer has been triggered by the completion of the Sale and Purchase Agreement on 12th April, 2005 whereby the Offeror acquired from the Vendors at HK\$0.80 per Share a total of 64,732,800 Sale Shares (as to 51,456,000 Sale Shares from Best Perfect, 10,316,800 Sale Shares from SBF, 2,560,000 Sale Shares from Mr. Li and 400,000 Sale Shares from Mr. Kitao). The 64,732,800 Sale Shares in aggregate represent approximately 50.20% of the total issued share capital of the Company as at the date of the Announcement. The Offeror is a wholly-owned subsidiary of Artfolio Corporation, which is a company incorporated in Japan and is owned as to 84.02% by Softbank Investment Corporation (a company listed on the Tokyo Stock Exchange in Japan). Before the completion of the Sale and Purchase Agreement, Artfolio was interested in 27,955,200 Shares, representing approximately 21.68% of the total issued share capital of the Company. Following completion of the Sale and Purchase Agreement and as at the Latest Practicable

LETTER FROM AMS

Date, Artfolio and parties acting in concert with it (including the Offeror) were interested in 92,688,000 Shares, representing approximately 71.88% of the total issued share capital of the Company.

2. *Share offer price*

Kingsway Financial is offering on behalf of the Offeror to acquire all the Shares (including any Shares that may fall to be issued under any Share Options prior to the close of the Offer) other than those already owned by the Offeror or parties acting in concert with it on and subject to the terms and conditions set out in Appendix I to the Document (the “Share Offer”) and at the price of HK\$0.80 per Share (the “Share Offer Price”) in cash.

Based on 128,945,000 Shares in issue as at the Latest Practicable Date and the Share Offer Price of HK\$0.80 per Share, the Share Offer values the entire issued share capital of the Company at approximately HK\$103.16 million.

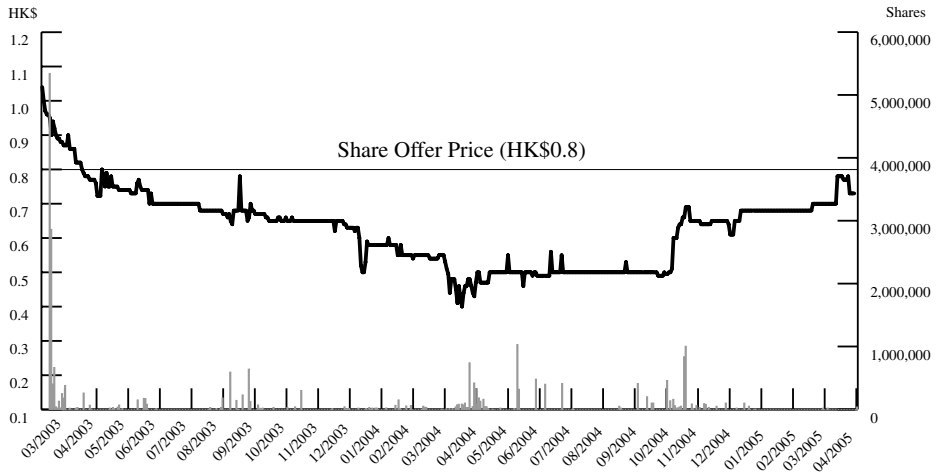
As stated in the letter from Kingsway Financial contained in the Document (the “Letter from Kingsway Financial”), the Share Offer Price is the same as the purchase price for each Share paid by the Offeror to the Vendors under the Sale and Purchase Agreement. The Share Offer Price represents:

- (i) a premium of approximately 14.29% over the closing price of HK\$0.70 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 14.29% over the average closing price of approximately HK\$0.70 per Share for the last ten consecutive trading days up to and including the Last Trading Day;
- (iii) a premium of approximately 150.00% to the Company’s audited consolidated net asset value per Share of approximately HK\$0.32 as at 31st December, 2004; and
- (iv) a premium of approximately 9.59% over the closing price of HK\$0.73 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

LETTER FROM AMS

3. Share performance

The following chart illustrates the daily turnover and the closing price of the Shares on the Stock Exchange for the period since the Shares first commenced trading on 26th February, 2003 to the Latest Practicable Date:



Source: website of the Stock Exchange — www.hkex.com.hk

- (i) During the period from 26th February, 2003 to 1st April, 2005 (being the Last Trading Day), the highest and lowest prices per Share were HK\$1.04 (recorded on 26th February, 2003) and HK\$0.40 (recorded on 2nd April, 2004), respectively. The Share Offer Price of HK\$0.80 per Share represents a discount of approximately 23.08% to and a premium of 100.00% over such highest and lowest closing prices per Share respectively. As shown in the chart above, the market prices of the Shares had been declining gradually since the commencement of trading in February 2003 and reached its lowest level in early April 2004. Since then and until October 2004, the market prices of the Shares hovered at around HK\$0.50 per Share. In November 2004, the market prices of the Shares began to pick up and rose gradually to level around HK\$0.70 per Share prior to the release of the Announcement. It should be noted that except for the first three months of trading since February 2003, the Shares had been traded at levels constantly below the Share Offer Price.
- (ii) During the period from 8th April, 2005 (being the first trading day immediately following the Announcement) to the Latest Practicable Date, the highest and the lowest prices per Share were HK\$0.78 and HK\$0.73, respectively. The average closing price during this period was approximately HK\$0.76 per Share. The Share Offer Price represents a premium of approximately 5.26% over such average.

LETTER FROM AMS

- (iii) The Share Offer Price represents a premium of approximately 9.59% over the closing price of HK\$0.73 per Share on the Latest Practicable Date as quoted on the Stock Exchange.

The Shares closed below the Share Offer Price during the whole period after the Announcement was made despite some volatility.

In view of the price performance of the Shares as discussed above and in particular the fact that the Shares had been traded at levels below the Share Offer Price for most of the time since its listing, we consider the Share Offer Price of HK\$0.80 per Share to be fair and reasonable as far as the Independent Shareholders are concerned.

4. *Liquidity*

The following table sets out the average daily trading volume and the relative value as a percentage of the Free Float Shares (as defined below) for the period commencing from 26th February, 2003 (being the first trading day of the Shares on GEM) up to and including the Latest Practicable Date:

Month	Average daily trading volume <i>(Shares)</i>	Percentage to Free Float Shares* <i>(%)</i>
2003		
February <i>(from 26th February, 2003, the first trading day of the Shares on GEM)</i>	2,869,333	7.91
March	96,000	0.26
April	6,600	0.02
May	34,600	0.10
June	500	Negligible
July	1,364	Negligible
August	56,571	0.16
September	43,524	0.12
October	16,818	0.05
November	500	Negligible
December	7,333	0.02

LETTER FROM AMS

Month	Average daily trading volume (Shares)	Percentage to Free Float Shares* (%)
2004		
January	15,158	0.04
February	11,500	0.03
March	55,652	0.15
April	76,105	0.21
May	69,200	0.19
June	61,524	0.17
July	476	Negligible
August	3,182	0.01
September	38,571	0.11
October	146,526	0.40
November	19,818	0.05
December	12,455	0.03
2005		
January	0	0
February	0	0
March	1,905	0.01
April (up to and including the Latest Practicable Date)	12,250	0.03

Source: website of the Stock Exchange — www.hkex.com.hk

* Based on 36,257,000 Shares (the “Free Float Shares”), being the total number of Shares in issue as at the Latest Practicable Date after deducting 92,688,000 Shares beneficially owned by the Offeror and parties acting in concert with it. We consider the use of the Free Float Shares to be more relevant than the total number of Shares in issue in the above analysis of the Shares’ liquidity since the Offeror and parties acting in concert with it (together with the Vendors before the completion of the Sale and Purchase Agreement) altogether hold the controlling stake of approximately 71.88% of the total number of Shares in issue.

Except for the few days in late February 2003 after the Shares became listed on GEM, the trading volume of the Shares during the period from March 2003 and up to the Last Trading Day was thin where the highest average daily turnover amounted to only 0.40% of the Free Float Shares. Following the release of the Announcement and up to the Latest Practicable Date, the trading volume of the Shares remained thin with the highest daily trading volume of only 84,000 Shares, representing approximately 0.23% of the Free Float Shares.

LETTER FROM AMS

Independent Shareholders should also note that during the period from 26th February, 2003 and up to the Last Trading Day, there was trading in the Shares in only 132 days out of a total of 520 trading days.

In view of the low liquidity of the Shares, we are of the opinion that it may be difficult for the Independent Shareholders who wish to dispose of their Shares in the open market to do so without adversely affecting the market price of the Shares. We therefore consider that the Share Offer provides an opportunity to these Independent Shareholders to realize their investment in the Company.

5. *Financial performance of the Group*

Set out below is a summary of the Group's audited results of operations for each of the four years ended 31st December, 2004 extracted from the Company's 2004 annual report:

	For the year ended 31st December,			
	2001	2002	2003	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	41,950	46,975	22,633	40,098
Net profit/(loss) attributable to Shareholders	3,675	10,431	(5,049)	576

For the year ended 31st December, 2001, the Group recorded a turnover and net profit of approximately HK\$42.0 million and HK\$3.7 million, respectively. For the year ended 31st December, 2002, while the Group's turnover increased by approximately 12% to HK\$47.0 million, its net profit rose significantly by over 180% to approximately HK\$10.4 million. As explained in the Company's 2002 annual report, the increase of the Group's turnover for the year ended 31st December, 2002 was mainly attributable to the stable growth of approximately 4.4% in the number of the Japanese visitors to Hong Kong. Due to the effective cost control as well as the fact that the Group had acquired some jewellery products from auctions at relatively lower costs, the Group was able to improve both its profit margin and net profit significantly for the year ended 31st December, 2002.

However, as explained in the Company's 2003 annual report, due to the outbreak of the Severe Acute Respiratory Syndrome ("SARS") during the second quarter of 2003, the Group's turnover dropped by more than 50% to approximately HK\$22.6 million and recorded a net loss of approximately HK\$5 million for the year ended 31st December, 2003.

LETTER FROM AMS

For the year ended 31st December, 2004, the Group's turnover improved significantly by approximately 77% to approximately HK\$40.1 million. The Group was also able to return to a profit of approximately HK\$0.6 million. As stated in the Company's 2004 annual report, the significant improvement in turnover was partly attributed to the recovery of the tourism in Hong Kong after the SARS and partly attributed to the Group's effort in widening its customer base to cover tourists from Mainland China since July 2004. Nevertheless, due to the severe operating environment in the first quarter of 2004 and the initial setup costs in connection with the retailing business to tourists from Mainland China, the Group only managed to make a net profit of a nominal amount of approximately HK\$0.6 million for the year ended 31st December, 2004.

As stated in the Company's 2004 annual report, given the significant number of visitors from Mainland China since the adoption of the Individual Visit Scheme in July 2003, the Group has expanded its business to selling to tourists from Mainland China since July 2004. For the year ended 31st December, 2004, approximately 9.5% of the Group's turnover was attributable to sales to tourists from Mainland China. In view of the opening of Disneyland in Hong Kong in late 2005, the Management expect that the Group's sales to tourists from Mainland China will increase in the future.

We are generally of the view that the number of tourists from Mainland China is likely to grow in the coming future because of the Individual Visa Scheme, under which a total of approximately 150 million citizens from 32 cities of Mainland China have been eligible to apply for individual visa to visit Hong Kong since July 2004, coupled with the current developments of the tourism industry in Hong Kong. In particular, the Disneyland is expected to open in late 2005 and the Tung Chung Cable Car System and Hong Kong Wetland Park are expected to be completed by the end of this year or early next year. Nevertheless, it should be noted that the Group used to rely on referral of Japanese tourists by tour operators, with which the Group has established a long business relationship and has entered into certain exclusive cooperation agreements. Under the Individual Visa Scheme, tourists from Mainland China may choose to either join tours or travel on their own. Thus those tourists who do not join tours will unlikely be the potential customers of the Group. The sales of the Group depend not only on the overall number of tourists to Hong Kong, but also on the Group's ability in obtaining referrals of Mainland Chinese tourists from tour operators on a regular basis. As advised by the Management, the Group has not yet secured any exclusive cooperation agreements with tour operators for tourists from Mainland China to Hong Kong.

LETTER FROM AMS

For the year ended 31st December, 2004, the Group managed to return to a profit of approximately HK\$0.6 million, which was far less than its historical level for the year ended 31st December, 2002 of over HK\$10 million. Given the fact that the Group is a new market entrant for retail sales to Mainland Chinese tourists and the prospects of such market are yet to be proven, we consider it premature to conclude that the Group will be able to capture a meaningful share of the benefits from the growing number of Mainland Chinese tourists to Hong Kong. Nevertheless, in view of the significant growth in the number of the Mainland Chinese tourist to Hong Kong, we consider it commercially sensible for the Group to expand into such market.

6. *Price/earnings multiple*

In general, we would consider it appropriate to assess the share value of industrial companies like the Company in terms of price/earnings multiple based on their historical earnings. In this case, however, since the Group has recorded a net loss for the previous financial year 2003 and returned to a nominal net profit of approximately HK\$0.6 million for the year ended 31st December, 2004, the price/earnings multiple of the Company based on such audited earnings of 0.45 cents per Share and the Share Offer Price of HK\$0.80 per Share would be approximately 178 times. We do not consider that such high price/earnings multiple based on a nominal profit would provide a reasonable indication of the value of the Shares. We therefore consider that the use of price/earnings multiple to assess the Share Offer Price would not be applicable.

7. *Net asset value*

As at 31st December, 2004, the Group's audited consolidated net asset value was approximately HK\$41.1 million, equivalent to approximately HK\$0.32 per Share based on 128,945,000 Shares in issue as at the Latest Practicable Date. The Share Offer Price represents a premium of approximately 150% to such audited consolidated net asset value per Share.

In assessing the fairness and reasonableness of the Share Offer Price of HK\$0.80 per Share, we have attempted to compare it with the share value of those companies listed on the Main Board or GEM of the Stock Exchange which operations are similar to those of the Group, i.e. the sourcing, manufacture, retail and wholesale

LETTER FROM AMS

of jewellery products in Hong Kong. To the best of our knowledge, we have identified seven such companies, all of which are listed on the Main Board of the Stock Exchange (the “Comparables”). Set out below is a summary of the comparison of the premium/(discount) of the respective share price over/to the latest published audited net asset value per share of the Comparables:

Company (Stock code)	Closing price per share on the Last Trading Day (HK\$)	Latest published audited net asset value per share (HK\$) (note 1)	Premium/(discount) of the closing share price on the Last Trading Day over/to the latest published net asset value per share %
Chow Sang Sang Holdings International Limited (116)	4.95	3.92 as at 31/12/2004	26.3
Continental Holdings Limited (513)	0.84	2.23 as at 30/6/2004	(62.3)
Egana Jewellery & Pearls Limited (926)	1.37	1.61 as at 31/5/2004	(14.9)
Hang Fung Gold Technology Limited(870)	1.02	1.30 as at 31/3/2004	(21.5)
King Fook Holdings Limited (280)	0.55	1.13 as at 31/3/2004	(51.3)
Luk Fook Holdings (International) Limited (590)	2.65	1.21 as at 31/3/2004	119.0
Tse Sui Luen Jewellery (International) Limited (417)	2.125	0.10 as at 29/2/2004	2,025.0
The Company	0.80 (note 2)	0.32	150.0

Source: website of the Stock Exchange — www.hkex.com.hk

Notes:

1. Based on the total number of shares in issue as at the date of the respective financial year end of the company.
2. Being the Share Offer Price.

As shown in the table above, amongst the 7 Comparables, four were traded at discounts ranging from approximately 14.9% to 62.3% to their respective latest published audited net asset value per share. The other three Comparables were traded at premiums ranging from approximately 26.3% to 2,025.0%. As indicated

LETTER FROM AMS

from the table above, one of the Comparables, namely Tse Sui Luen Jewellery (International) Limited, was traded at an exceptionally high premium of approximately 2,025%, which deviates significantly from the data for the other Comparables. Therefore, we have excluded such outlier for the purposes of our analysis. The premium of 150% over the net asset value per Share as represented by the Share Offer Price is significantly higher than those two Comparables which were traded at premiums of approximately 26.3% and 119.0% over their respective net asset value per share. On this basis, we consider the Share Offer Price of HK\$0.80 per Share, which represents a premium of 150% over the audited consolidated net asset value of HK\$0.32 per Share, to be fair and reasonable as far as the Independent Shareholders are concerned.

Although we consider the comparison above using the net asset value to be relevant and appropriate in assessing the fairness and reasonableness of the Share Offer Price, it should be noted that the business activities of the Comparables may not be directly comparable to those carried out by the Group since there may be differences in the business operations between the Company and the Comparables in terms of product type, target customers, sales channels or scale of operations, etc. The Comparables are intended to provide a reference as to the valuation of companies having similar nature of business only. The analysis by reference to net asset value is only one of the principal factors in assessing the overall fairness and reasonableness of the terms of the Share Offer.

8. *Intention of the Offeror*

Artfolio, the holding company of the Offeror, has been a substantial shareholder (within the meaning of the GEM Listing Rules) of the Company beneficially interested in approximately 21.68% of the issued share capital of the Company since 2002. Following the completion of the Sale and Purchase Agreement on 12th April, 2005, the Offeror has become the controlling shareholder (within the meaning of the GEM Listing Rules) of the Company and, together with parties acting in concert with it, held approximately 71.88% of the issued share capital of the Company as at the Latest Practicable Date. Information relating to the Offeror is set out in the Letter from Kingsway Financial. As stated in the Letter from the Board, all existing Directors intend to remain on the Board upon closing of the Offer and the Offeror intends to nominate an additional Director to the Board as soon as practicable. The management roles of the executive Directors will also remain unchanged after closing of the Offer.

As stated in the Letter from Kingsway Financial, it is the intention of the Offeror that if the Company remains listed on GEM, the existing principal activities of the Group will remain unchanged. The Offeror intends to continue the existing businesses of the Group and no intention to re-deploy the fixed assets or to make

LETTER FROM AMS

any material changes to the existing management and employees of the Group by reason only of the Offer. The Offeror has no intention to inject any assets or businesses into the Group within one year after the close of the Offer. In the event that there is any injection of assets or businesses by the Offeror (or its associates) into the Group within 24 months after Completion, the Stock Exchange may treat the Company as if it were a new listing applicant, and the Offeror will comply with the relevant requirements under the GEM Listing Rules.

Given the intention of the Offeror that the management (including the Board), the employees, assets and businesses of the Group will not be materially changed by reason only of the Offer, it appears that other than the change in controlling shareholder of the Company resulting from completion of the Sale and Purchase Agreement, the Offer itself is not expected to bring about any material changes to the Group in respect of its business, management or deployment of assets.

II. THE OPTION OFFER

Pursuant to the terms of the Offer, Kingsway Financial is also offering on behalf of the Offeror a cash amount of HK\$0.70 per Share Option (the “Option Offer Price”) to the Option Holders for the cancellation of their Share Options (the “Option Offer”). The Option Offer Price has been determined as being the see-through price in accordance with the Takeovers Code on the basis of the Share Offer Price of HK\$0.80 per Share and the exercise price of HK\$0.10 for each Share under the Share Options. The Option Offer Price is the same as the price offered by the Offeror for cancellation of each Share Option by the Sale Optionholders under the Sale and Purchase Agreement. As stated in the Letter from Kingsway Financial, there were in total 1,095,000 Share Options outstanding as at the Latest Practicable Date.

Pursuant to the Pre-IPO Share Option Scheme, the Option Holders are entitled to subscribe for one new Share at the subscription price of HK\$0.10 per Share for each Share Option held. 545,000 of the outstanding Share Options are exercisable at any time until 26th August, 2005 with the remaining 550,000 until 26th August, 2006. If the Share Options are not exercised before their respective expiry dates, they will lapse in accordance with the terms of the Pre-IPO Share Option Scheme.

Based on the closing price of HK\$0.73 per Share as at the Latest Practicable Date and without taking into account the time value and any transaction costs, the intrinsic value of the Share Options as at the Latest Practicable Date was equivalent to HK\$0.63 per Share Option. On this basis, the Option Offer Price of HK\$0.70 for each Share Option appears to be acceptable to the Option Holders. As the Option Offer Price has been

LETTER FROM AMS

determined as being the see-through price (i.e. the difference between the Share Offer Price and the exercise price under the Share Options) and, based on our analysis above on the Share Offer, we consider the Share Offer Price of HK\$0.80 per Share to be fair and reasonable, we also consider the Option Offer Price of HK\$0.70 per Share Option under the Option Offer to be fair and reasonable as far as the Option Holders are concerned.

RECOMMENDATION

Having considered the above principal factors, particularly the fact that:

- (i) the Shares have been traded at levels below the Share Offer Price most of the time since its listing on GEM;
- (ii) the liquidity of the Shares was extremely low both before and after the release of the Announcement; and
- (iii) the Share Offer Price represents a substantial premium over the Company's latest audited consolidated net asset value per Share as at 31st December, 2004,

we consider the terms of the Share Offer to be fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders that they should consider accepting the Share Offer.

Those Independent Shareholders who wish to take this opportunity to realize part or all of their Shares should have regard to the market prices of the Shares before the close of the Share Offer and should sell their Shares in the open market rather than accepting the Share Offer if the net proceeds from the sale of Shares in the open market after deducting all transaction costs are more than the net amount to be received under the Share Offer. However, Independent Shareholders should be aware that there may or may not be sufficient trading volume of the Shares in the open market for them to dispose of their Shares.

Based on our analysis above, we consider the Option Offer Price fair and reasonable so far as the Option Holders are concerned. Accordingly, we recommend the Independent Board Committee to advise the Option Holders that they should consider accepting the Option Offer.

Those Option Holders who wish to take this opportunity to realize part or all of their Share Options should have regard to the market price of the Shares before the close of the Option Offer and should consider exercising their Share Options and selling the Shares in the open market rather than accepting the Option Offer if the net proceeds from the sale of Shares in the open market after deducting all related costs (including the exercise price of the Share Options) would be greater than the net amount to be received under the Option Offer.

LETTER FROM AMS

Those Independent Shareholders and Option Holders who do not intend to accept the Offer should have regard to the circumstances under which the Offeror may proceed with the privatization of the Company following the close of the Offer, details of which have been stated in the section headed “Compulsory acquisition or maintaining the listing status of the Company” in the Letter from Kingsway Financial. Particularly, Independent Shareholders and Option Holders should note that if the Offeror proceeds with the privatization of the Company and withdrawal of listing of the Company’s securities from GEM pursuant to Rule 9.23 of the GEM Listing Rules, the Company will apply for a suspension of dealings in the Shares from the closing of the Offer up to the withdrawal of listing of the Shares from GEM, in which case the existing Shares in issue and any Shares to be issued upon exercise of the Share Options will not be tradable in the open market.

Yours faithfully,
For and on behalf of
AMS Corporate Finance Limited
Jinny Mok
Director

FURTHER PROCEDURES FOR ACCEPTANCE

- (a) If your Shares or the Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Share(s) is/are in your name, and you wish to accept the Offer, you must send the duly completed form of acceptance and transfer together with the relevant Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce.
- (b) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer, you must:
- (i) lodge your Share certificate(s) and/or transfer receipts and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) (if any) with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar by no later than 4:00 p.m. on 18th May, 2005, or such later time as the Offeror may determine and announce; or
 - (ii) arrange for the Shares to be registered in your name by the Company through the Registrar, and send the form of acceptance and transfer duly completed together with the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Registrar, and then follow the procedure set out in paragraph (a) above; or
 - (iii) if your Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on 17th May, 2005 which is one business day before the latest date on which acceptances of the Offer must be received by the Registrar. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing on processing of your instructions and submit your instructions to your broker/custodian bank as required by them; or

- (iv) if your Shares have been lodged with your Investor Participant Account with CCASS, authorise your instructions via the CCASS Phone System or CCASS Internet System not later than one business day before the latest date on which acceptances of the Offer must be received by the Registrar, which is 17th May, 2005 in this case.
- (c) If you have lodged (a) transfer(s) of any of your Shares for registration in your name and have not yet received your certificate(s), and you wish to accept the Offer in respect of your Shares, you should nevertheless complete the relevant form(s) of acceptance and transfer and deliver it/them to the Registrar together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to Kingsway Financial and/or the Offeror or their respective agent(s) to collect from the Company or the Registrar on your behalf the Share certificate(s) when issued and to deliver such certificate(s) to the Registrar as if it was/they were delivered to the Registrar with the form of acceptance and transfer.
- (d) If the certificate(s) and/or transfer receipts and/or other document(s) of title in respect of your Shares is/are not readily available and/or is/are lost and you wish to accept the Offer, the form of acceptance and transfer should nevertheless be completed and delivered to the Registrar together with a letter stating that you have lost one or more of your Share certificate(s) and/or transfer receipts and/or other document(s) of title or that it/they is/are not readily available. If you find such document(s) or if it/they become available, the relevant Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title should be forwarded to the Registrar as soon as possible thereafter. If you have lost your Share certificate(s), you should also write to the Registrar for a letter of indemnity which, when completed in accordance with the instructions given, should be returned to the Registrar.
- (e) Acceptance(s) of the Offer may, at the discretion of the Offeror, be treated as valid even if not accompanied by the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title, but, in such cases, the cheque(s) for the consideration due will not be despatched until the Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or a satisfactory indemnity or indemnities in respect thereof) has/have been received by the Registrar or the company secretary of the Company, as the case may be.
- (f) No acknowledgement of receipt of any form(s) of acceptance, Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title will be given.
- (g) Any Option Holder who wishes to accept the Offer for Share Options should sign and return the **YELLOW** form of acceptance accompanying the composite offer document sent to him or her together with his or her certificate(s) and/or other document(s) of title or entitlement to the Company at the Rear Portion of Ground Floor, Grandview

Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong by no later than 4:00 p.m. on 18th May, 2005 (or such later time as the Offeror may decide and announce).

- (h) The address of the Registrar is Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

ACCEPTANCE PERIOD

Unless the Offer is extended, the Offer will expire at 4:00 p.m. on 18th May, 2005.

ANNOUNCEMENTS

- (a) By 6:00 p.m. on the day of the close of Offer (or such later time and/or date as the Executive may in exceptional circumstances agree), the Offeror shall inform the Executive and the Stock Exchange that the Offer has been closed, revised or extended. By 7:00 p.m., the Offeror should publish a teletext announcement through the Stock Exchange stating whether the Offer has been closed, revised or extended. An announcement to that effect shall be published the GEM website on the next business day. Such announcement will specify the total number of Shares and rights over Shares:
- (i) for which acceptances of the Offer have been received;
 - (ii) held, controlled or directed by the Offeror or persons acting in concert with it before the Offer Period; and
 - (iii) acquired or agreed to be acquired during the Offer Period by the Offeror or any persons acting in concert with it.

The announcement will also include the details of voting rights, rights over Shares, derivatives and arrangements as required in Rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement will also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

- (b) In computing the number of Offer Shares represented by acceptances, there may be included or excluded for announcement purposes acceptances which are not in all respects in order or that are subject to verification.
- (c) As required under the Takeovers Code and the GEM Listing Rules, any announcement in relation to the Offer, in respect of which the Executive and the Stock Exchange have confirmed that they have no further comments thereon, must be published on the GEM website on the “Latest Company Announcements” page for 7 days from the date of its posting.

- (d) If the Offer is extended or revised, the announcement of such extension or revision will either state the next closing date or state that the Offer will remain open until further notice, in which case at least 14 days' notice will be given before the Offer is closed to those Shareholders who have not accepted the Offer. If the Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days following the date of the announcement of the extension or the date on which the revised composite offer document is posted (as the case may be) and, unless previously extended or revised (or having become or been declared unconditional in all respects), shall be closed at 4:00 p.m. on the subsequent closing date. In any case where the Offer is revised, the benefit of any revision of the Offer will be available to any Shareholder who has previously accepted the Offer. The execution by or on behalf of any Shareholder who has previously accepted the Offer of any **WHITE** form of acceptance and transfer or the **YELLOW** form of acceptance shall be deemed to constitute acceptance of the revised Offer.

RIGHT OF WITHDRAWAL

As the Offer is unconditional, acceptances by the Shareholders or Option Holders under the Offer shall be irrevocable and cannot be withdrawn.

GENERAL

- (a) All communications, notices, forms of acceptance and transfer for the Offer Shares, Share certificates, transfer receipts, forms of acceptance for the Share Options, other documents of title or entitlement (or indemnities) or remittances to be delivered by or sent to or from Shareholders or Option Holders will be delivered by or sent to or from them, or their designated agents, at their own risk, and neither the Company, the Offeror, Kingsway Capital, Kingsway Financial or the Registrar or any of their respective directors or officers accepts any liability for any loss in postage or any other liabilities that may arise as a result.
- (b) The provisions set out in the accompanying **WHITE** form of acceptance and transfer and the **YELLOW** form of acceptance form part of the Offer.
- (c) The accidental omission to despatch the composite offer document and/or the **WHITE** form(s) of acceptance and transfer in respect of the Offer Shares or the **YELLOW** form of acceptance in respect of the Share Options or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.

- (d) The Offer and all acceptances thereof will be governed by and construed in accordance with the laws of Hong Kong. Execution of a **WHITE** form of acceptance and transfer or the **YELLOW** form of acceptance by or on behalf of a Shareholder or Option Holder, respectively, will constitute such Shareholder's or Option Holder's (as the case may be) agreement that the courts of Hong Kong shall have exclusive jurisdiction to settle any dispute which may arise in connection with the Offer.
- (e) Due execution of the **WHITE** form of acceptance and transfer or the **YELLOW** form of acceptance will constitute an authority to any directors of the Offeror or such person or persons as the Offeror may direct to complete and execute any document on behalf of the person accepting the Offer and to do any other act that may be necessary or expedient for the purposes of vesting in the Offeror or such person or persons as it may direct the Shares or canceling the Share Options (as the case may be), in respect of which such person has accepted the Offer.
- (f) Acceptance of the Offer for Shares by any person will be deemed to constitute a warranty by such person to the Offeror that the Shares acquired under the Offer are sold by any such person free from all third party rights, liens, claims, charges, equities and encumbrances and together with all rights attaching thereto including the rights to receive all future dividends or other distributions declared, paid or made on the Shares after 7th April, 2005, being the date of the joint announcement dated 7th April, 2005.
- (g) Acceptance of the Offer with respect to any Share Option by any person will be deemed to constitute a warranty by such person that he/she/it is the sole holder of such Share Option, and such Share Option is valid, in full force and effect and exercisable against the Company and is free from all liens, charges, mortgages, rights of pre-emption, claims, equities, restrictions on transfer, encumbrances and third party rights of whatsoever nature (other than those restrictions imposed by the Company thereon at the time of grant thereof).
- (h) Each Shareholder by whom, or on whose behalf, a **WHITE** form of acceptance and transfer is executed irrevocably undertakes, represents, warrants and agrees to and with the Offeror and Kingsway Financial (so as to bind him, his personal representatives, heirs, successors and assigns) to the following effect that (i) the Offeror shall be entitled to direct the exercise of any votes and any and all other rights and privileges (including the right to requisition the convening of a general meeting of the Company) attaching to any Shares ("Acceptance Shares"), (ii) the Company will be authorised by the holder of Acceptance Shares to send any notice which may be required to be sent to him as a Shareholder to the Offeror at the address of the Registrar, and (iii) the Offeror will be authorised by such Shareholder to sign any consent to short notice of general meetings and separate class meetings on his behalf and/or to execute a form of proxy in respect of such Acceptance Shares appointing any person determined by the Offeror to attend general meetings and separate class meetings of the Company (and any adjournments

thereof) and to exercise the votes attaching to such Acceptance Shares on his behalf, and will also (subject as aforesaid) constitute the agreement of such Shareholder not to exercise any of such rights without the consent of the Offeror and the irrevocable undertaking of such Shareholder not to appoint a proxy for or to attend general meetings or separate class meetings and, subject as aforesaid, to the extent such Shareholder has previously appointed a proxy, other than the Offeror or its nominee or appointee, for or to attend general meetings or separate class meetings, such Shareholder hereby expressly revokes such appointment.

- (i) Acceptances will be subject to validation and stamping (as the case may be) before the consideration payable in respect thereof will be despatched to the persons entitled to it provided that the consideration shall be despatched no later than the tenth day after the later of the date on which the Offer becomes or is declared unconditional and the date on which all the relevant documents are received by the Registrar to render acceptance of the Offer complete and valid. Payment of the consideration under the Offer will be implemented in full in accordance with the Takeovers Code without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be entitled against the accepting Shareholder or Option Holder.
- (j) Seller's ad valorem stamp duty arising in connection with acceptance of the Offer, amounting to HK\$1.00 for every HK\$1,000 or part thereof the greater of (i) the consideration payable or (ii) the market value of the Offer Shares in respect of the relevant acceptances and transfers, will be payable by Shareholders accepting the Offer. The Offeror will pay such amount of stamp duty on behalf of the Shareholders and such amount will be deducted from the amount due to such accepting Shareholders under the Offer.
- (k) The Offeror may consider exercising the compulsory acquisition power under the provisions of Section 88 of the Companies Law (2004 Revision) to compulsorily acquire the Offer Shares not acquired under the Offer after the Offer has closed.
- (l) References to the Offer in the composite offer document and in the **WHITE** forms of acceptance and transfer and the **YELLOW** forms of acceptance shall include any extension and revision thereof. If any closing date of the Offer is extended, any reference in the composite offer document, the **WHITE** form of acceptance and transfer or the **YELLOW** form of acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date as so extended.
- (m) The making and availability of the Offer outside Hong Kong, or to any Shareholder or Option Holder who has a registered address in a jurisdiction outside Hong Kong or who is a citizen or resident of any jurisdiction(s) outside Hong Kong ("Overseas Holder"), may be affected by the laws of the relevant jurisdictions. Overseas Holders should fully acquaint themselves with and observe any applicable legal requirements. It is the

responsibility of any Overseas Holder wishing to accept the Offer to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required or the compliance with other necessary formalities and the payment of any transfer or other taxes or other requisite payments due in such jurisdiction. Acceptance of this Offer by any person or persons holding Shares or Share Options will be deemed to constitute a warranty by such person such that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws. Any such Overseas Holder will be responsible for any such transfer or other taxes or other requisite payments by whomsoever payable and the Offeror, Kingsway Financial and any person acting on behalf of any of them shall be fully indemnified and held harmless by such Overseas Holder for any such transfer or other taxes as the Offeror or Kingsway Financial (or any person acting on behalf of any of them) may be required to pay.

- (n) The attention of Overseas Holders and any person (including, without limitation any nominee, custodian or trustee) who may have an obligation to forward the composite offer document outside Hong Kong is drawn to paragraph (m) above in this section and to the relevant provisions in the **WHITE** form of acceptance and transfer and the **YELLOW** form of acceptance. The availability of the Offer to any such person may be affected by the laws of the relevant jurisdiction.
- (o) Subject to the Takeovers Code, the Offeror and Kingsway Financial reserve the right to notify any matter (including the making of the Offer) to all or any Shareholder(s) or Option Holder(s) with a registered address(es) outside Hong Kong or whom the Offeror or Kingsway Financial knows to be nominees, trustees or custodians for such person by announcement on the GEM website in which case such notice shall be deemed to have been sufficiently given notwithstanding any failure by any such Shareholder or Option Holder to receive or see such notice, and all references in the composite offer document to notice in writing shall be construed accordingly.
- (p) Subject to the Takeovers Code, the provisions of paragraph (m) above in this section and/or any other terms of the Offer relating to Overseas Holders may be waived, varied or modified as regards specific Shareholder(s) or Option Holder(s) or on a general basis by the Offeror in its absolute discretion.
- (q) In making their decision, Shareholders and Option Holders must rely on their own examination of the Offeror and the Company and the terms of the Offer, including the merits and risks involved. The contents of the composite offer document, including any general advice or recommendations contained herein, and the **WHITE** form of acceptance and transfer and the **YELLOW** form of acceptance are not to be construed as legal or business advice. Shareholders and Option Holders should consult with their own lawyer

or financial adviser for legal or financial advice. Additionally, the composite offer document does not include any information with respect to United States, Japan or PRC taxation. Shareholders and Option Holders who may be subject to tax in the United States, Japan or the PRC are urged to consult their tax adviser regarding the United States (Federal or State), Japan, the PRC or local or other tax consequences of owning and disposing of Offer Shares or surrendering Share Options.

- (r) The Offer and the composite offer document are made in accordance with the Takeovers Code.
- (s) The English text of this composite offer document, the **WHITE** forms of acceptance and transfer and the **YELLOW** forms of acceptance shall prevail over the Chinese text for the purpose of interpretation.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

I. SUMMARY OF FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31ST DECEMBER, 2004

The following financial information has been extracted from the audited financial statements of the Group for each of the three years ended 31st December, 2004:

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$000</i>
TURNOVER	4	40,098	22,633	46,975
Cost of sales		<u>(12,586)</u>	<u>(8,216)</u>	<u>(11,397)</u>
Gross profit		27,512	14,417	35,578
Other revenue and gains		914	73	45
Selling and distribution costs		(16,018)	(8,153)	(13,401)
General and administrative expenses		<u>(11,784)</u>	<u>(11,402)</u>	<u>(9,870)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	624	(5,065)	12,352
Finance cost	8	<u>(48)</u>	<u>(17)</u>	<u>(17)</u>
PROFIT/(LOSS) BEFORE TAX		576	(5,082)	12,335
Tax	9	<u>—</u>	<u>33</u>	<u>(1,904)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>576</u>	<u>(5,049)</u>	<u>10,431</u>
DIVIDENDS	10	<u>—</u>	<u>4,698</u>	<u>2,300</u>
EARNINGS/(LOSS) PER SHARE	11			
— Basic, HK cents		<u>0.45</u>	<u>(4.07)</u>	<u>10.2</u>
— Diluted, HK cents		<u>0.43</u>	<u>N/A</u>	<u>N/A</u>

There were neither extraordinary nor exceptional items existing during each of the three years ended 31st December, 2004.

There were no minority interests existing during each of the three years ended 31st December 2004.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

No dividend was paid for the year ended 31st December, 2004. Dividend of HK\$4,698,000 representing HK3.67 cents per share of the Company was paid by the Company for the year ended 31st December, 2003. An interim dividend of HK\$2.3 million was paid by a subsidiary of the Company to its then shareholders for the year ended 31st December, 2002 before the Group's reorganization for purpose of listing of the Company's shares on the GEM of the Stock Exchange of Hong Kong Limited. The rates of dividends and the number of shares ranking for the dividends are not presented as such information, in the opinion of the Directors, is not meaningful for the purpose of this composite offer document.

No qualified opinion has been issued by the Company's then auditors, Ernst & Young and Albert Lam & Co. for each of the three years ended 31st December, 2004.

II. FINANCIAL STATEMENTS

The following is a summary of the audited consolidated accounts of the Company for the two years ended 31st December, 2004 as extracted from the 2004 annual report of the Company.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31st December, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
TURNOVER	4	40,098	22,633
Cost of sales		<u>(12,586)</u>	<u>(8,216)</u>
Gross profit		27,512	14,417
Other revenue and gains		914	73
Selling and distribution costs		(16,018)	(8,153)
General and administrative expenses		<u>(11,784)</u>	<u>(11,402)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	5	624	(5,065)
Finance cost	8	<u>(48)</u>	<u>(17)</u>
PROFIT/(LOSS) BEFORE TAX		576	(5,082)
Tax	9	<u>—</u>	<u>33</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>576</u></u>	<u><u>(5,049)</u></u>
DIVIDENDS	10	<u><u>—</u></u>	<u><u>4,698</u></u>
EARNINGS/(LOSS) PER SHARE	11		
— Basic, HK cents		<u><u>0.45</u></u>	<u><u>(4.07)</u></u>
— Diluted, HK cents		<u><u>0.43</u></u>	<u><u>N/A</u></u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

CONSOLIDATED BALANCE SHEET

31st December, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	<i>12</i>	2,612	1,742
Other assets	<i>13</i>	324	339
		<u>2,936</u>	<u>2,081</u>
CURRENT ASSETS			
Inventories	<i>14</i>	28,464	27,424
Trade receivables	<i>15</i>	1,053	1,480
Prepayments, deposits and other receivables		3,826	2,119
Tax recoverable		—	6
Pledged time deposit		84	84
Cash and bank balances		9,120	11,426
		<u>42,547</u>	<u>42,539</u>
CURRENT LIABILITIES			
Trade payables	<i>16</i>	1,971	492
Accruals and other payables		1,634	1,818
Trade deposit received	<i>17</i>	800	819
Interest-bearing bank loan, unsecured	<i>18</i>	—	1,083
		<u>4,405</u>	<u>4,212</u>
NET CURRENT ASSETS		<u>38,142</u>	<u>38,327</u>
		<u>41,078</u>	<u>40,408</u>
CAPITAL AND RESERVES			
Issued capital	<i>19</i>	12,894	12,800
Reserves	<i>21</i>	28,184	27,608
		<u>41,078</u>	<u>40,408</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31st December, 2004

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit/(Loss) before tax	576	(5,082)
Adjustments for:		
Depreciation	789	641
Amortisation of other assets	15	14
Interest income	(1)	(71)
Interest expense	48	17
Loss on fixed assets written off	2	—
Provision for inventories	—	1,000
	<hr/>	<hr/>
Operating profit/(loss) before working capital changes	1,429	(3,481)
Increase in inventories	(1,040)	(1,101)
Decrease/(Increase) in trade receivables	427	(1,184)
(Increase)/Decrease in prepayments, deposits and other receivables	(1,707)	1,429
Increase/(Decrease) in trade payables	1,479	(99)
(Decrease)/Increase in accruals and other payables	(184)	513
(Decrease)/Increase in trade deposit received	(19)	107
	<hr/>	<hr/>
Cash generated from/(used in) operations	385	(3,816)
Hong Kong profits tax refund/(paid)	6	(1,083)
Dividends paid	—	(4,698)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	391	(9,597)
	<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(1,661)	(359)
Interest received	1	71
Increase in other assets	—	(50)
Increase in pledged time deposit	—	(1)
	<hr/>	<hr/>
Net cash outflow from investing activities	(1,660)	(339)
	<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest paid	(48)	(17)
(Repayment)/Inception of bank loan	(1,083)	1,083
Capital element of finance lease payments	—	(300)
Proceeds from issue of share capital	94	25,600
Share issue expenses	—	(6,145)
	<hr/>	<hr/>
Net cash (outflow)/inflow from financing activities	(1,037)	20,221
	<hr/>	<hr/>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		
	(2,306)	10,285
Cash and cash equivalents at beginning of year	11,426	1,141
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF YEAR	9,120	11,426
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	9,120	11,426
	<hr/> <hr/>	<hr/> <hr/>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY*Year ended 31st December, 2004*

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total equity at beginning of year		40,408	33,692
Issue of shares, including share premium	<i>19</i>	94	25,600
Share issue expenses	<i>21</i>	—	(9,137)
Net profit/(loss) from ordinary activities attributable to shareholders	<i>21</i>	576	(5,049)
Special dividend in respect of the year ended 31 December 2003	<i>10, 21</i>	—	(4,698)
Total equity at end of year		<u>41,078</u>	<u>40,408</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

BALANCE SHEET*31st December, 2004*

		2004	2003
		<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Investment in a subsidiary	23	28,501	28,501
CURRENT ASSETS			
Due from subsidiaries	23	16,085	16,395
Prepayments, deposits and other receivables		142	—
Cash and bank balances		78	—
		<u>16,305</u>	<u>16,395</u>
CURRENT LIABILITIES			
Accruals		<u>340</u>	<u>349</u>
NET CURRENT ASSETS			
		<u>15,965</u>	<u>16,046</u>
		<u>44,466</u>	<u>44,547</u>
CAPITAL AND RESERVES			
Issued capital	19	12,894	12,800
Reserves	21	<u>31,572</u>	<u>31,747</u>
		<u>44,466</u>	<u>44,547</u>

NOTES TO FINANCIAL STATEMENTS*31st December, 2004***1. CORPORATE INFORMATION**

During the year, the Group was principally engaged in the manufacture, retail and wholesale of jewellery products.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The annual rate used for this purpose for all fixed assets is 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Other assets

Other assets, representing the costs of memberships in a golf club and a recreational club, are stated at cost less any impairment losses and/or accumulated amortisation, where applicable. Amortisation is calculated on the straight-line basis to write off the cost over the term of membership.

Inventories

Inventories are stated at the lower of cost and net realisable value, after making due allowances for any obsolete or slow-moving items.

Cost in respect of raw materials and finished goods purchased is determined on the unit cost basis. In the case of finished goods manufactured, cost mainly comprises direct materials, direct labour costs and direct overheads. Net realisable value is based on estimated selling prices less any further costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of consolidated cash flow statement, cash and cash equivalents comprise of cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of balance sheet, cash and cash equivalents comprise of cash on hand and cash at banks, including term deposit, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (ii) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost.

Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Foreign currency transactions

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

3. 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.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

4. 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.

5. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

Group	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	12,586	6,577
Staff costs (excluding directors' remuneration — note 6):		
Wages and salaries	7,097	5,354
Retirement benefits scheme contributions	324	241
Total staff costs	<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	<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.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

6. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Independent non-executive directors	97	80
	<u>97</u>	<u>80</u>
Other emoluments:		
Executives directors:		
Basic salaries and other allowances	2,275	2,132
Retirement benefits scheme contributions	24	24
Non-executive directors	—	—
Independent non-executive directors	—	—
	<u>2,299</u>	<u>2,156</u>
	<u><u>2,396</u></u>	<u><u>2,236</u></u>

Pre-IPO share options were granted to the directors of the Company upon the listing of the Group on 26th February, 2003 in respect of their services to the Group, further details of which are set out in note 20 to the financial statements.

The number of directors whose remuneration fell within the following bands is as follows:

	2004	2003
Nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	1	1
	<u>8</u>	<u>8</u>
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive director A	1,312	1,230
Executive director B	987	926
Non-executive director A*	—	—
Non-executive director B	—	—
Non-executive director C	—	—
Independent non-executive director A	50	50
Independent non-executive director B	30	30
Independent non-executive director C**	17	—
	<u>2,396</u>	<u>2,236</u>

* resigned during the year

** newly appointed during the year

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

There were no arrangements under which a director waived or agreed to waive any emoluments during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

7. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose emoluments are set out in note 7 above. The details of remuneration paid to the remaining three (2003: three) non-director, highest paid employees are as follows:

Group	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Basic salaries and other allowances	1,173	1,037
Retirement benefits scheme contributions	<u>32</u>	<u>32</u>
	<u>1,205</u>	<u>1,069</u>

The remuneration of the non-director, highest paid employees fell within the range of nil to HK\$1,000,000 for the years ended 31st December, 2004 and 2003.

330,000 pre-IPO share options were granted to a non-director, highest paid employee upon the listing of the Group on 26th February, 2003 in respect of his services to the Group, further details of which are set out in note 20 to the financial statements.

During the year, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office.

8. FINANCE COST

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

9. TAX

Group	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current — Hong Kong		
Charge for the year	—	—
Overprovision in the prior year	<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.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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:

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

At the balance sheet date, deferred tax assets in respect of tax losses and other deductible temporary differences not recognised in the financial statements were as follows:

Group	2004	2003
	HK\$'000	HK\$'000
Depreciation and capital allowance on fixed assets	255	229
General provision for inventories	26	175
Tax losses	<u>826</u>	<u>819</u>
	<u>1,107</u>	<u>1,223</u>

No deferred tax asset has been recognised in respect of the above items due to unpredictability of future profit streams. The tax losses of the Group arising in Hong Kong amounting to HK\$4,717,000 (2003: HK\$4,678,000) are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

10. DIVIDENDS

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

Note:

- (i) On 12th 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 31st 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 30th April, 2003.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

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

11. 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 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 5th February, 2003, the Company became the holding company of the companies now comprising the Group had been completed on 1st 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 31st December, 2003 as the outstanding share options had an anti-dilutive effect on the basic loss per share for the year.

12. FIXED ASSETS

Group

	Furniture and fixtures	Office equipment	Motor vehicle	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost:				
At 1st January, 2004	6,115	1,154	1,106	8,375
Additions	1,503	158	—	1,661
Write-off	—	(143)	—	(143)
At 31st December, 2004	<u>7,618</u>	<u>1,169</u>	<u>1,106</u>	<u>9,893</u>
Accumulated depreciation:				
At 1st January, 2004	5,313	810	510	6,633
Provided during the year	472	129	188	789
Write-off	—	(141)	—	(141)
At 31st December, 2004	<u>5,785</u>	<u>798</u>	<u>698</u>	<u>7,281</u>
Net book value:				
At 31st December, 2004	<u>1,833</u>	<u>371</u>	<u>408</u>	<u>2,612</u>
At 31st December, 2003	<u>802</u>	<u>344</u>	<u>596</u>	<u>1,742</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

13. OTHER ASSETS

Group	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost	440	440
Accumulated amortisation	(116)	(101)
Net book value	<u>324</u>	<u>339</u>

14. INVENTORIES

Group	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Raw materials	19,369	14,737
Finished goods	9,095	12,687
	<u>28,464</u>	<u>27,424</u>

The carrying amount of inventories has been carried at after charging a general provision of HK\$150,000 (2003: HK\$1,000,000) as at the balance sheet date.

15. TRADE RECEIVABLES

Trade receivables represent (i) receivables from financial institutions in respect of credit card receivables for retail sales and are aged within one week. No credit term was granted to the Group's retail customers as the Group's retail sales were made by cash, travellers' cheques or credit cards; and (ii) receivables in respect of wholesale sales to HOMEOSTYLE Inc. (*note 25 (a)*). The credit period is granted for a period of 45 days for 30% of the invoiced amount and 120 days for the remaining amount for each transaction.

An aging analysis of the trade receivables as at the balance sheet date is as follows:

Group	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	371	1,239
Between 31 and 60 days	—	241
Between 61 and 180 days	211	—
Over 180 days	471	—
	<u>1,053</u>	<u>1,480</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

16. TRADE PAYABLES

An aging analysis of the trade payables as at the balance sheet date is as follows:

Group	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	346	156
Between 31 and 60 days	180	299
Between 61 and 180 days	1,264	37
Over 180 days	181	—
	<u>1,971</u>	<u>492</u>

17. TRADE DEPOSIT RECEIVED

The amount represents a purchase deposit received from Reiki Funaya K.K. (“Funaya”) which is unsecured, interest-free and has no fixed terms of repayment.

Mr. Etsuro Funaya, a former director of Lai Fai Jewellery Trading Limited (“LFJ”), a subsidiary of the Company, is the controlling shareholder of Funaya. Mr. Etsuro Funaya resigned as the director of LFJ on 27th February, 2002 and, accordingly, is not regarded as a related party thereafter.

18. INTEREST-BEARING BANK LOAN, UNSECURED

Group	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Bank loan repayable within one year classified as current liability	<u>—</u>	<u>1,083</u>

19. SHARE CAPITAL

Company	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Authorised:		
300,000,000 (2003: 300,000,000) shares of HK\$0.10 each	<u>30,000</u>	<u>30,000</u>
Issued and fully paid:		
128,945,000 (2003: 128,000,000) shares of HK\$0.10 each	<u>12,894</u>	<u>12,800</u>

945,000 pre-IPO share options were exercised by the eligible persons during the year and thus increased the issued and fully paid share capital of the Company by HK\$94,500. Details of the Company’s pre-IPO share option scheme and the movement of the share options granted under the scheme are included in note 20 to the financial statements.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

20. SHARE OPTION SCHEMES

Pre-IPO share option plan

In recognising the contribution of certain directors, employees and shareholders of any member of the Group to the growth of the Group and/or the listing of the shares of the Company on the GEM of the Stock Exchange, the Company adopted a pre-IPO share option plan (the “Pre-IPO Plan”) on 5th February, 2003. Pursuant to the terms of the Pre-IPO Plan, options to subscribe for an aggregate of 8,000,000 shares of the Company were granted to a shareholder and five directors of the Company and seven employees of the Group on 26th February, 2003, at an exercise price of HK\$0.10. The detailed movements of the share options granted under the Pre-IPO Plan were set out below:

	Date of grant	Exercise price per share	Exercisable period	Total number of share options granted	Number of share options exercised during the year	Number of share options outstanding as at 31st December, 2004	Percentage of the Company's share capital issued as at 31st December, 2004
Directors/Ex-director:							
Best Perfect International							
Limited (Note 2)	26th February, 2003	HK\$0.1	Note 3	4,010,000	—	4,010,000	3.11
Mr. Yoshitaka Kitao	26th February, 2003	HK\$0.1	Note 3	1,300,000	(400,000)	900,000	0.70
Mr. Yu Kam Kee, Lawrence	26th February, 2003	HK\$0.1	Note 3	500,000	—	500,000	0.39
Mr. Ty Siao Kian, George*	26th February, 2003	HK\$0.1	Note 3	500,000	—	500,000	0.39
Mr. Che King Lun, Frankly	26th February, 2003	HK\$0.1	Note 3	400,000	—	400,000	0.31
Mr. Mak Tak Cheong, Edmund	26th February, 2003	HK\$0.1	Note 3	200,000	—	200,000	0.16
Others:							
Employees (Note 1)			Note 4	1,090,000	(545,000)	545,000	0.42
				<u>8,000,000</u>		<u>7,055,000</u>	

* resigned on 15 March 2004

Notes:

- Employees are those working under employment contracts regarded as “continuous contracts” under Employment Ordinance (Chapter 57 of the laws of Hong Kong).
- The options were granted to Best Perfect International Limited 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.
- The directors and the shareholder are entitled to exercise (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 the Listing Date (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,

provided that such exercise of options would not render the percentage of the Company's shares in public hands to fall below the minimum prescribed percentage of 25% as required by Rule 11.23 of the GEM Listing Rules.

4. The employees are entitled to exercise (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 the Listing Date (the "First Employees' 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 Employees' Exercise Period.

945,000 share options were exercised under the Pre-IPO Plan during the year and up to the date of approval of these financial statements.

The exercise in full of all the outstanding share options would, under the present capital structure of the Company, result in the issue of 7,055,000 additional shares of the Company and additional share capital of HK\$705,500, before the related issue expenses.

Share option scheme

Under the terms of the share option scheme (the "Scheme") adopted by the Company on 5th February, 2003, the board of directors (the "Board") or a duly authorised committee (the "Committee") of the Company is authorised, at their absolute discretion, to invite any employees, directors, advisors, consultants, distributors, suppliers, agents, customers, joint venture partners and service providers to or of any member of the Group, shareholders (including their directors and employees) of any member of the Group and such other persons whom the Board or the Committee considers to have contributed or will contribute to the Group to take up options to subscribe for shares of the Company. The purpose of the Scheme is to encourage its participants to contribute to the success of the Group.

The Scheme became effective on 26th February, 2003 and, unless otherwise cancelled or amended, remains in force for ten years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company may not exceed 10% of the issued share capital of the Company or to a maximum of 30% should the shareholders renew the 10% limit, from time to time which have been duly allotted and issued. The maximum number of shares issuable under share options to each eligible participant in the Scheme within twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK\$5,000,000, within any twelve-month period, are subject to shareholders' approval in advance in a general meeting.

An option may be exercised in accordance with the terms of the Scheme at any time during the option period after the option has been granted by the Board. The option period, during which an option may be exercised, is determined by the Board or the Committee, but may not be later than ten years after the date of the grant of the option. According to the Scheme, there is no provision requiring a minimum holding period before an option may be exercised. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option under the Scheme.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

The exercise price will be determined by the Board or the Committee, but may not be less than the higher of (i) the closing price of the shares on the GEM of the Stock Exchange on the date of the options granted; (ii) the average of the closing price of the shares on the GEM of the Stock Exchange for the five trading days immediately preceding the date of the options granted; and (iii) the nominal value of the shares.

No share options were granted under the Scheme as at 31st December, 2004 and up to the date of approval of these financial statements. As at the date of approval of these financial statements, 12,894,500 shares are available for issue under the Scheme, representing 10% of the issued share capital of the Company at that date.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

21. RESERVES

	<i>Notes</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group					
At 1st 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>10</i>	—	—	(4,698)	(4,698)
At 31st December, 2003 and 1st January, 2004		3,664	21,177	2,767	27,608
Net profit from ordinary activities attributable to shareholders		—	—	576	576
At 31st December, 2004		<u>3,664</u>	<u>21,177</u>	<u>3,343</u>	<u>28,184</u>
			Share premium	Accumulated losses	Total
	<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Company					
Arising from acquisition of LFBVI			28,500	—	28,500
Issue of shares			23,040	—	23,040
Capitalisation issue of shares			(10,239)	—	(10,239)
Share issue expenses			(9,137)	—	(9,137)
Net profit for the year			—	4,281	4,281
Special 2003 dividend	<i>10</i>		—	(4,698)	(4,698)
At 31st December, 2003 and 1st January, 2004			32,164	(417)	31,747
Net loss for the year			—	(175)	(175)
At 31st December, 2004			<u>32,164</u>	<u>(592)</u>	<u>31,572</u>

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

The contributed surplus of the Group represents reserve arising from the Group Reorganisation, comprising (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor; and (ii) the assignment of amount due to a director, Mr. Li Shui, to LFBVI.

The share premium account of the Company includes reserve arising from the Group Reorganisation amounting to HK\$28,500,000, representing the excess of the then combined net assets of the subsidiaries acquired over the nominal value of the share capital of the Company issued in exchange therefor.

According to the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

22. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Restricted cash and cash equivalent balances

A time deposit of the Group is pledged to a bank to secure banking facility in respect of a utility deposit granted to the Group.

23. INTERESTS IN SUBSIDIARIES

Company	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	28,501	28,501
Due from subsidiaries	16,085	16,395
	<u>44,586</u>	<u>44,896</u>

The amounts due from subsidiaries included in the Company's current assets are unsecured, interest-free and have no fixed terms of repayment.

APPENDIX II FINANCIAL INFORMATION REGARDING THE GROUP

Particulars of the subsidiaries are as follows:

Company name	Place of incorporation/ operations	Issued and paid-up share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Lai Fai International (BVI) Limited	British Virgin Islands/ Hong Kong	US\$1,000	100	—	Investment holding
Lai Fai Jewellery Trading Limited	Hong Kong	HK\$3,000,000	—	100	Retail and wholesale of Jewellery products
Champion Force Industrial Limited	Hong Kong	HK\$2	—	100	Sourcing and manufacture of jewellery products
Lai Fai Jewellery (China) Limited	Hong Kong	HK\$1	—	100	Retail and wholesale of jewellery products

24. OPERATING LEASE ARRANGEMENT

At the balance sheet date, the Group leases its office property and retail shop under an operating lease arrangement which is negotiated for a term of two years (2003: three years). The Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

Group	2004 HK\$'000	2003 HK\$'000
Within one year	—	1,715
In the second to fifth years, inclusive	6,036	—
	<u>6,036</u>	<u>1,715</u>

25. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances set out elsewhere in these financial statements, the Group had the following material related party transactions during the year:

(a) Group	2004 HK\$'000	2003 HK\$'000
Sale of goods	1,026	1,023
Promotion and marketing fees paid	—	298
	<u>1,026</u>	<u>1,321</u>

The sale of goods and prior year payment of promotion and marketing fees were made to HOMEOSTYLE Inc. (“HOMEOSTYLE”), a Japanese retail company held by the discretionary investment funds managed by a fellow subsidiary of Artfolio Corporation, a substantial shareholder of the Company, pursuant to a supply agreement entered into between the Group and HOMEOSTYLE on 15th October, 2003.

Sale of goods were made based on the cost of the Group plus a mark up agreed between the Group and HOMEOSTYLE.

As at 31st December, 2004, there were no outstanding balances (2003: outstanding balance of HK\$1,023,000) due from HOMEOSTYLE in respect of the sale of goods included in the Group’s trade receivables, and no outstanding balance (2003: outstanding balance of HK\$298,000) due to HOMEOSTYLE in respect of the promotion and marketing fee included in the Group’s accruals and other payables.

In the opinion of the directors, the above transactions were carried out in the ordinary course of business of the Group.

26. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25th February, 2005.

MATERIAL CHANGE

The Company hereby confirms that there are no material changes in the financial or trading position or prospects of the Group subsequent to 31st December, 2004, being the date to which the last published audited financial statements of the Group were made.

STATEMENT OF INDEBTEDNESS

Borrowings

As at the close of business on 31st March, 2005, being the latest practicable date for purpose of this indebtedness statement prior to the printing of this composite offer document, the Group did not have any outstanding borrowings.

Disclaimer

Saved as aforesaid and apart from intra-group liabilities and trade payables of approximately HK\$1,876,000 arising from general trading, the Group did not have outstanding as at the close of business on 31st March, 2005 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, obligation under finance lease contracts, liabilities under acceptance, acceptance credits, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities.

1. RESPONSIBILITY STATEMENT

This document includes particulars given in compliance with the Takeovers Code for the purpose of giving information with regard to the Company.

The information contained in this document (other than that relating to the Offeror and director(s)), but including that relating to the Group) is supplied by the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this document (other than that relating to the Offeror and its shareholder and related parties (and their respective directors), but including that relating to the Group) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than that relating to the Offeror and its shareholder and related parties (and their respective directors), but including that relating to the Group) not contained in the document, the omission of which would make any statement in this document misleading.

The information contained in this document relating to the Offeror and its shareholders and related parties and their respective director(s) (other than that relating to the Group and the Directors) is supplied by the Offeror. The sole director of the Offeror accepts full responsibility for the accuracy of the information contained in this document (other than that relating to the Group and the Directors) and confirm, having made all reasonable enquiries, that to the best of his knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts (other than that relating to the Group and the Directors) not contained in this document, the omission of which would make any statement in this document misleading.

2. SHARE CAPITAL

No new Shares have been issued by the Company since 31st December, 2004, being the end of the last financial year of the Company, and up to the Latest Practicable Date. The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

	<i>HK\$</i>
<i>Authorised:</i>	
300,000,000 Shares of HK\$0.10 each	<u>30,000,000</u>
<i>Issued and fully paid up:</i>	
128,945,000 Shares of HK\$0.10 each	<u>12,894,500</u>

All Shares rank pari passu in all respects as regards to rights to dividends, voting and return of capital.

The Shares are listed and traded on the GEM. None of the Shares is listed, or dealt in, on any other stock exchange, nor is any listing of or permission to deal in Shares being, or proposed to be, sought on any other stock exchange.

As at the Latest Practicable Date, there were 1,095,000 outstanding Share Options, held by each of Mr. Yu Kam Kee, Lawrence (non-executive Director), Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly (both of whom are independent non-executive Directors) and seven employees of the Group under the Pre-IPO Share Option Scheme. Under the Pre-IPO Share Option Scheme of the Company, these 1,095,000 outstanding Share Options are not transferable or assignable.

Save as aforesaid, as at the Latest Practicable Date, no other Shares or securities convertible into or warrants or options to subscribe for or derivatives relating to Shares were in issue or outstanding.

3. DISCLOSURE OF INTERESTS

(a) Interests of the Directors

As at the Latest Practicable Date, the interest and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be 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 were taken or deemed to have under such provisions of the SFO); or (b) pursuant

to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

(i) *Interests of the Directors in the Company*

Name of Director	Interest in ordinary shares of HK\$0.10 each in the Company				Total Interest	Percentage in share capital (%)
	Personal Interest	Family Interest	Corporate Interest	Others Interest		
Yu Kam Kee, Lawrence	250,000 (Note 1)	Nil	Nil	Nil	250,000	0.19%
Che King Lun, Frankly	200,000 (Note 1)	Nil	Nil	Nil	200,000	0.16%
Mak Tak Cheong, Edmund	100,000 (Note 1)	Nil	Nil	Nil	Nil	0.08%

Note:

- These are Share Options granted under the Pre-IPO Share Option Scheme at the exercise price of HK\$0.10 per Share.

(ii) *Interest of the Directors in Artfolio (associated corporation of the Company)*

Name of Director	Interest in ordinary shares in Artfolio				Total Interest	Percentage in issued capital (%)
	Personal Interest	Family Interest	Corporate Interest	Others Interest		
Mr. Kitao	100 (Note 1)	Nil	Nil	Nil	100	0.33%

Note:

- These are share options exercisable until 28th March, 2009 and at the exercise price of YEN35,000 per share.

(iii) *Interest of the Directors in Softbank Investment Corporation (“SBI”) (associated corporation of the Company)*

Name of Director	Interest in ordinary shares in SBI				Total Interest	Percentage in issued capital (%)
	Personal Interest	Family Interest	Corporate Interest	Others Interest		
Mr. Kitao	111,903.91 (Note 1)	Nil	Nil	Nil	Nil	1.22%
	56,997 (Note 2)	Nil	Nil	Nil	Nil	1.84%

Notes:

1. These are shares in SBI held by Mr. Kitao.
2. These are share options relating to SBI exercisable until 19th December, 2012. The exercise price of 29,997 share options is YEN5,996 per share and the exercise price of 27,000 share options is YEN 17,917 per share.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the subsidiaries of the Company or any pension fund of the Company or its subsidiaries had any interest in Shares.

(b) Persons with interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO

As at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons had an interest or short position in Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Nature of Interest	Number of Shares held	% of total issued Shares
Softbank Corp (“SBC”) <i>(Note 1)</i>	Corporate	92,688,000	71.88%
SBF <i>(Note 1)</i>	Corporate	92,688,000	71.88%
Softbank Investment Corporation (“SBI”) <i>(Note 1)</i>	Corporate	92,688,000	71.88%
Artfolio <i>(Note 1)</i>	Beneficial/ Corporate	92,688,000	71.88%
Offeror <i>(Note 1)</i>	Beneficial	64,732,800	50.20%

Note:

- The Offeror is a controlled corporation of Artfolio within the meaning of the SFO. Artfolio is a controlled corporation of SBI within the meaning of the SFO. SBI is a controlled corporation of SBF, which is in turn a controlled corporation of SBC (within the meaning of SFO). SBC, SBF, SBI and Artfolio are deemed to be interested in the Shares held by the Offeror. SBC, SBF and SBI are also deemed to be interested in the Shares held by Artfolio.

4. DISCLOSURE OF SHAREHOLDINGS IN THE GROUP AND THE OFFEROR

As at the Latest Practicable Date,

- save for the Shares held by the Offeror and Artfolio as stated in paragraph (b) of the section headed “3. Disclosure of interests” in this Appendix, none of the persons acting in concert with the Offeror (including Artfolio and the director(s) of Artfolio and the Offeror, respectively) owned or controlled any securities of the Company;
- no subsidiary of the Company, or any pension fund of the Company or of any member of the Group or AMS owned or controlled any securities in the Company;

- (c) no shareholding in the Company was managed on discretionary basis by fund managers (other than exempt fund managers) connected with the Company;
- (d) to the best knowledge of the director of the Offeror after making reasonable enquiries, no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any party acting in concert with it;
- (e) to the best knowledge of the Directors after making reasonable enquiries, no person had an arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or any party acting in concert with it;
- (f) to the best knowledge of the director of the Offeror after making reasonable enquiries, there was no arrangement of the kind referred to in the third paragraph of Note 8 to Rule 22 of the Takeovers Code between the Offeror or any person acting in concert with the Offeror or any of its associates (“associates” as defined in the Takeovers Code) and any other person;
- (g) to the best knowledge of the Directors after making all reasonable enquiries, there was no arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code between the Company or with any person who is an associate of the Company by virtue of Classes (1), (2), (3) and (4) of the definition of associate and any other person;
- (h) save as disclosed in the paragraph headed “3. Disclosure of interests” in this Appendix, none of the Company and the Directors is interested in the Offeror;
- (i) the Offeror (whose registered address is at Commerce Chamber, P.O. Box 2208, Road Town, British Virgin Islands) was wholly owned by Artfolio (whose registered office is at 4th Floor, Sugai Building, 3-18-16, Toranomon, Minato-ku, Tokyo 105-0001, Japan) which was owned as to approximately 84.02% by SBI, the shares of which are listed on the Tokyo Stock Exchange and accordingly they are concert parties of the Offeror; and
- (j) none of the Directors holds any Shares and no Director has indicated that he will or will not accept the Offer in relation to Share Options.

5. DEALING IN SHARES

During the Relevant Period,

- (a) save for the acquisition of the Sale Shares and cancellation of the Share Options by the Sale Optionholders pursuant to the Sale and Purchase Agreement, none of the Offeror nor parties acting in concert with it had dealt for value in any securities of the Company;
- (b) save for the disposal of the Sale Shares by Mr. Li and Mr. Kitao pursuant to the Sale and Purchase Agreement, none of Directors had dealt for value in any securities of the Company;

- (c) neither the Company nor any of its Directors dealt for value in the securities of the Offeror or the Company;
- (d) none of the subsidiaries of the Company, any pension funds of the Company or any of its subsidiaries or AMS, had dealt for value in any securities in the Company;
- (e) to the best of the knowledge of the director of the Offeror after making reasonable enquiries, no persons had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Company or with any person who is an associate of the Company by virtue of classes (1), (2), (3) and (4) of the definition of “associate” in the Takeovers Code had dealt for value in any securities in the Company;
- (f) to the best of the knowledge of the director of the Offeror after making reasonable enquiries, no persons who had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with the Offeror or with any persons acting in concert with it and therefore the requirement of the Takeovers Code to state whether such person had dealt for value in any securities in the Company or to include an appropriate negative statement is not applicable; and
- (g) no fund managers (other than exempted fund managers) connected with the Company and who managed funds on a discretionary basis connected with the Company had dealt for value in any securities in the Company.

6. MARKET PRICES

- (a) The highest and lowest closing prices of the Shares quoted on the Stock Exchange during the period between 8th October, 2004 (being the date falling six months prior to the commencement of the Offer Period) and the Latest Practicable Date were HK\$0.78 per Share on 8th, 11th to 13th, and 19th April, 2005 and HK\$0.49 per Share on 11th to 14th October, 2004, respectively.
- (b) The table below sets out the closing prices of the Shares on the Stock Exchange on the last business day of each of the six calendar months immediately preceding the joint announcement of the Offer on which trading of the Shares took place:

	Closing price <i>HK\$</i>
29th October, 2004	0.60
30th November, 2004	0.64
31st December, 2004	0.68
31st January, 2005	0.68
28th February, 2005	0.68
31st March, 2005	0.70

- (c) The closing price of the Shares on the Stock Exchange on 1st April, 2005, being the last day on which the Shares were traded before the suspension of trading on 4th April, 2005 at the request of the Company, was HK\$0.70.
- (d) The closing price of the Shares in the Company on the Stock Exchange on the Latest Practicable Date was HK\$0.73.

7. LITIGATION

Neither the Offeror, the Company nor any of its subsidiaries are engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the director of the Offeror or the Directors, respectively, to be pending or threatened by or against Offeror or the Company or any of its subsidiaries, respectively.

8. MATERIAL CONTRACTS

For the period after the date two years before the commencement of the Offer Period and up to the Latest Practicable Date, the only contract that is or may be material, not being contract entered into in the ordinary course of business of the Offeror or its subsidiaries, is the Sale and Purchase Agreement.

There are no contracts (other than contracts entered into in the ordinary course of business) that have been entered into by any member of the Group after the date two years before the commencement of the Offer Period and up to the Latest Practicable Date, which are or may be material.

9. EXPERTS

The following are the qualifications of each of the experts who have been named in this composite offer document or given their opinion or advice which are contained in this composite offer document:

Name	Qualification
AMS	A corporation licensed under the SFO to carry on type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities
Albert Lam & Co.	Certified public accountants
Kingsway Capital	Licensed corporation under the SFO
Kingsway Financial	Licensed corporation under the SFO

10. CONSENT

AMS, Albert Lam & Co., Kingsway Capital, and Kingsway Financial have given and have not withdrawn their respective written consents to the issue of this composite offer document with the inclusion in this composite offer document of the text of their respective letters or reports and references to their names in the form and context in which they are included.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Richards Butler at 20th Floor, Alexandra House, 16-20 Chater Road, Central, Hong Kong while the Offer remains open.

- (a) the memorandum and articles of association of the Offeror and Company;
- (b) the annual report of the Company for the two years ended 31st December, 2004;
- (c) the letter of advice from AMS, the full text of which is set out on pages 24 to 38 of this composite offer document;
- (d) the letter of recommendation of the Independent Board Committee, the text of which is set out on page 23 of this composite offer document;
- (e) the letter from Kingsway Financial, the text of which is set out on pages 13 to 22 of this composite offer document;
- (f) the material contracts set out under the paragraph headed “Material contracts” in Appendix III to this composite offer document; and
- (g) the written consents referred to in the paragraph headed “Consent” in Appendix III to this composite offer document.

13. MISCELLANEOUS

- (a) The Secretary of the Company is Mr. Lam King Pui who is a fellow member of the Association of Chartered Certified Accountants, a Certified Public Accountant, an associate member of the Hong Kong Society of Accountants, an associate member of the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.
- (b) The registered office of the Company is situated at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT George Town, Grand Cayman, British West Indies.

- (c) The head office and principal place of business of the Company is situated at Rear Portion of Ground Floor, Grandview Garden, 71-77 Pau Chung Street, Tokwawan, Kowloon, Hong Kong.
- (d) The principal share registrar and transfer office of the Company is The Bank of Butterfield International (Cayman) Ltd., which is situated at Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands, British West Indies.
- (e) The Hong Kong branch share registrar and transfer office of the Company is Tengis Limited, which is situated at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (f) The principal place of business of Kingsway Capital is at 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (g) The principal place of business of Kingsway Financial is at 5th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (h) None of the existing Directors will be given any benefit as compensation for loss of office or otherwise in connection with the Offer.
- (i) There is no agreement or arrangement between any of the Directors and any other person which is conditional on or dependent upon the outcome of the Offer or otherwise connected with the Offer.
- (j) There is no agreement or arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it (on the one part) and any of the directors, recent directors, shareholders or recent shareholders of the Company (on the other part) having any connection with or dependence upon the Offer.
- (k) The Offeror does not have any intention to transfer any Shares acquired pursuant to the Offer to any other person.
- (l) There is no person who has irrevocably committed to accepting or rejecting the Offer.
- (m) As at the Latest Practicable Date, there was no material contract entered into by the Offeror in which any of the Directors had a material personal interest.

- (n) None of the Directors has entered into any service contract with the Company or any of its subsidiaries or associated companies which have more than 12 months to run, or which have been entered into or amended within six months before the commencement of the Offer Period.

- (o) The English language text of this composite offer document, the **WHITE** forms or acceptance and transfer and the **YELLOW** forms of acceptance shall prevail over the Chinese language text for the purpose of interpretation.