



# 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)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30TH JUNE 2005

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

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*This announcement, for which the directors of Lai Fai International Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“GEM Listing Rules”) for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this announcement is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this announcement misleading; and (iii) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- Turnover for the three months and six months ended 30th June 2005 were HK\$13,262,000 and HK\$28,124,000 (2004: HK\$9,427,000 and HK\$13,785,000) respectively which demonstrated a significant improvement of 40.7% and 104% over the same periods of last year. The improvement in turnover was mainly attributed to the Group's effort in widening its customer base to retail sales from visitors of Mainland China since July 2004 which has accounted for 18% of the total turnover in the period under review.
- Gross profit for the three months and six months ended 30th June 2005 were HK\$9,511,000 and HK\$20,566,000 (2004: HK\$6,160,000 and HK\$8,709,000) respectively. The gross profit margins have improved from 65% to 71.7% for the three months ended 30th June 2005 and 63% to 73.1% for the six months ended 30th June 2005 over the same corresponding periods of last year respectively.
- In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005 and the most significant of which affecting the Group's results was HKFRS 2 — Share Based Payment.

Because of the HKFRS 2, the Group has suffered a net loss from ordinary activities attributable to shareholders irrespective of the fact that there were improvements in both turnover and gross profit.

However, if we excluded the effects of HKFRS 2 for analysis purpose only, there would be net profit from ordinary activities attributable to shareholders for the three months and six months ended 30th June 2005 of HK\$780,000 and HK\$2,577,000 respectively which demonstrated a great improvement from the last corresponding periods for the three months and six months ended 30th June 2004 of a net profit of HK\$240,000 and a net loss of HK\$1,380,000 respectively.

- The Group maintained sufficient liquid cash of approximately HK\$12.5 million as at 30th June 2005 to meet its ongoing operations and development requirements.
- Loss per share was 1.431 HK cents for the three months ended 30th June 2005 and loss per share was 0.389 HK cent for the six months ended 30th June 2005.
- The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2005.

## INTERIM RESULTS

The board of directors (the “Board”) of the Company presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30th June 2005, together with the comparative unaudited figures for the corresponding periods in 2004.

### CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Three months ended 30th June		Six months ended 30th June	
		2005 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)	2005 <i>HK\$'000</i> (Unaudited)	2004 <i>HK\$'000</i> (Unaudited)
<b>Turnover</b>	3	<b>13,262</b>	9,427	<b>28,124</b>	13,785
Cost of sales		<b>(3,751)</b>	(3,267)	<b>(7,558)</b>	(5,076)
<b>Gross profit/(loss)</b>		<b>9,511</b>	6,160	<b>20,566</b>	8,709
Other revenue and gains		<b>51</b>	1	<b>81</b>	1
Selling and distribution costs		<b>(5,448)</b>	(2,879)	<b>(11,688)</b>	(4,441)
General and administrative expenses		<b>(5,959)</b>	(3,009)	<b>(9,460)</b>	(5,592)
<b>Profit/(loss) from operating activities</b>	4	<b>(1,845)</b>	273	<b>(501)</b>	(1,323)
Finance cost	5	—	(33)	—	(57)
<b>Profit/(loss) before tax</b>		<b>(1,845)</b>	240	<b>(501)</b>	(1,380)
Tax	6	—	—	—	—
<b>Net profit/(loss) from ordinary activities attributable to shareholders</b>		<b>(1,845)</b>	240	<b>(501)</b>	(1,380)
<b>Earning/(loss) per share</b>	7				
— Basic, HK cents		<b>(1.431)</b>	0.188	<b>(0.389)</b>	(1.078)
— Diluted, HK cents		<b>N/A</b>	0.178	<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Fixed assets		2,204	2,612
Other assets		317	324
		<u>2,521</u>	<u>2,936</u>
<b>CURRENT ASSETS</b>			
Inventories		27,421	28,464
Accounts receivables	8	762	1,053
Prepayments, deposits and other receivables		3,155	3,826
Pledged time deposit		84	84
Cash and bank balances		12,467	9,120
		<u>43,889</u>	<u>42,547</u>
<b>CURRENT LIABILITIES</b>			
Accounts payables	9	1,606	1,971
Accruals and other payables		571	1,634
Trade deposit received		578	800
		<u>2,755</u>	<u>4,405</u>
<b>NET CURRENT ASSETS</b>			
		<u>41,134</u>	<u>38,142</u>
		<u><b>43,655</b></u>	<u><b>41,078</b></u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	12	12,894	12,894
Reserves	10	30,761	28,184
		<u>43,655</u>	<u>41,078</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30th June 2005 <i>HK\$'000</i> (Unaudited)	Six months ended 30th June 2004 <i>HK\$'000</i> (Unaudited)
Net cash inflow/(outflow) from operating activities	3,407	(2,710)
Net cash inflow/(outflow) from returns on investment and servicing of finance	—	—
Net cash used in investing activities	(60)	(622)
Net cash inflow/(outflow) from financing activities	—	(535)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,347</b>	<b>(3,867)</b>
Cash and cash equivalents at beginning of period	9,120	11,426
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>12,467</b>	<b>7,559</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:</b>		
Cash and bank balances	12,467	7,559

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>HK\$'000</i> (Unaudited)	Share Premium <i>HK\$'000</i> (Unaudited)	Share based Compensation Reserve <i>HK\$'000</i> (Unaudited)	Contributed Surplus <i>HK\$'000</i> (Unaudited)	Retained Earnings <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
At 1st January 2004	12,800	3,664	—	21,177	2,768	40,409
Net loss from ordinary activities attributable to shareholders for the period	—	—	—	—	(1,380)	(1,380)
At 30th June 2004	12,800	3,664	—	21,177	1,388	39,029
At 1st January 2005	12,894	3,664	—	21,177	3,343	41,078
Net loss from ordinary activities attributable to shareholders for the period	—	—	—	—	(501)	(501)
Arised on exercising of pre-IPO share options	—	—	453	—	—	453
Arised on cancellation of pre-IPO share options	—	—	2,625	—	—	2,625
At 30th June 2005	12,894	3,664	3,078	21,177	2,842	43,655

Notes:

## 1. Basis of Presentation

The interim results announcement has been prepared in accordance with the Statement of Standard Accounting Practice (“SSAP”) Number 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The accounting policies adopted in the interim financial statements are consistent with those followed in the annual financial statements for the year ended 31st December 2004.

In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005.

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

## 2. Segment Information

During the periods under review, the Group was principally engaged in the manufacture, retail and wholesale of jewellery products in Hong Kong, and over 90% of the Group’s revenue, results, assets and liabilities were derived from Hong Kong. Accordingly, no business or geographical segment information is presented.

## 3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

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

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

	Six months ended	
	30th June 2005 HK\$’000	30th June 2004 HK\$’000
Depreciation	468	330
Amortisation of other asset	<u>7</u>	<u>7</u>

## 5. Finance Cost

Finance cost in the last corresponding period represented unsecured bank loan interest.

## 6. Tax

No provision for Hong Kong profits tax was made for the six months ended 30th June 2005 (2004: Nil) as companies within the Group have no assessable profits or have accumulated tax losses brought forward which exceed the estimated assessable profits in that period.

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

## 7. Earning/(Loss) Per Share

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

The calculation of basic earning/(loss) per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the 3 and 6 months ended 30th June 2005 of HK\$1,845,000 and HK\$501,000 respectively (3 months and 6 months ended 30th June 2004: unaudited net profit of HK\$240,000 and unaudited net loss of HK\$1,380,000 respectively) and the weighted average number of 128,945,000 (3 months and 6 months ended 30th June 2004: weighted average number of 128,000,000 respectively) shares of the Company.

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

No diluted loss per share has been presented for the 3 months ended 30th June 2005 and the 6 months ended 30th June 2005 and 2004 as the outstanding share options had an anti-dilutive effect on the basic loss per share for that period.

The calculation of diluted earning per share for the 3 months ended 30th June 2004 was based on the unaudited net profit from ordinary activities attributable to shareholders of HK\$240,000. The weighted average number of ordinary shares used in the calculation is 128,000,000 ordinary shares in issue during that period and the weighted average of 6,545,455 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during that period.

## 8. Accounts Receivable

Accounts receivable 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;
- (ii) Sales to HOMEOSTYLE Inc., a related party (*note 11*), with the credit period of 45 days for 30% of the invoiced amount and 120 days for the remaining amount for each transaction; and
- (iii) Other wholesale customers with general credit terms of no more than 120 days.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
Outstanding balances with ages		
Within 30 days	<b>298</b>	371
Between 31 and 60 days	<b>99</b>	—
Between 61 and 180 days	<b>365</b>	211
Over 180 days	<b>—</b>	471
	<b>762</b>	1,053

## 9. Accounts Payable

An aged analysis of the accounts payable as at the balance sheet date is as follows:

	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
Outstanding balances with ages		
Within 30 days	<b>766</b>	346
Between 31 and 60 days	<b>106</b>	180
Between 61 and 180 days	<b>734</b>	1,264
Over 180 days	<b>—</b>	181
	<b><u>1,606</u></b>	<b><u>1,971</u></b>

## 10. Movement on Reserves

	<b>Share Premium HK\$'000 (Unaudited)</b>	<b>Share based Compensation Reserve HK\$'000 (Unaudited)</b>	<b>Contributed Surplus HK\$'000 (Unaudited)</b>	<b>Retained Earnings HK\$'000 (Unaudited)</b>	<b>Total HK\$'000 (Unaudited)</b>
At 1st January 2004	3,664	—	21,177	2,768	27,609
Net loss from ordinary activities attributable to shareholders for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>(1,380)</u>	<u>(1,380)</u>
At 30th June 2004	<b><u>3,664</u></b>	<b><u>—</u></b>	<b><u>21,177</u></b>	<b><u>1,388</u></b>	<b><u>26,229</u></b>
At 1st January 2005	<b>3,664</b>	—	<b>21,177</b>	<b>3,343</b>	<b>28,184</b>
Net loss from ordinary activities attributable to shareholders for the period	—	—	—	<b>(501)</b>	<b>(501)</b>
Arised on exercising of pre-IPO share options	—	<b>453</b>	—	—	<b>453</b>
Arised on cancellation of pre-IPO share options	—	<b>2,625</b>	—	—	<b>2,625</b>
At 30th June 2005	<b><u>3,664</u></b>	<b><u>3,078</u></b>	<b><u>21,177</u></b>	<b><u>2,842</u></b>	<b><u>30,761</u></b>



## 11. Related Party Transactions

In addition to the transactions and balances set out elsewhere in notes to this interim results announcement, the Group had the following material related party transactions during the periods under review:

- (a) The sale of goods was made to HOMEOSTYLE Inc. (“HOS”), a Japanese retail company held by a 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 HOS on 15th October 2003.

	Six months ended 30th June	
	2005 HK\$'000 (Unaudited)	2004 HK\$'000 (Unaudited)
Sale of goods	<u>32</u>	<u>966</u>

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

## 12. Share Capital

	30th June 2005 HK\$'000 (Unaudited)	31st December 2004 HK\$'000 (Audited)
<b>Ordinary Shares</b>		
<i>Authorised:</i>		
300,000,000 shares of HK\$0.10 each	<u>30,000</u>	<u>30,000</u>
<i>Issued and fully paid:</i>		
128,945,000 shares of HK\$0.10 each	<u>12,894</u>	<u>12,894</u>

### Share Options Schemes:

The Company operates a Pre-IPO Share Option Scheme and a Share Option Scheme, details of these schemes were set out in the Prospectus of the Company dated 11th February 2003.

No share options under the Share Option Scheme were granted during the six months ended 30th June 2005.

There were no outstanding Pre-IPO Share Options existed at 30th June 2005 as they were either lapsed or cancelled by Standbrook Enterprises Limited (“SEL”) as a result of her acquisition of the Company’s shares from the vendors as detailed in the Company’s announcement dated 8th April 2005 and the mandatory unconditional cash offer by SEL to acquire all the issued shares and the share options of the Company as per circular dated 27th April 2005.

## 13. Pledge of Assets

As at 30th June 2005, the Group has pledged its bank deposits of approximately HK\$84,000 (2004: HK\$84,000) to CLP Power Hong Kong Limited as utilities deposit to secure their provision of electricity.

## 14. Operating Lease Arrangement

The Group leases its office property and retail shop under an operating lease arrangement which is negotiated for a term of two years.

The Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	<b>30th June 2005 HK\$'000 (Unaudited)</b>	31st December 2004 HK\$'000 (Audited)
Within one year	—	—
In the second to fifth years, inclusive	<u>6,036</u>	<u>6,036</u>
	<u>—</u>	<u>6,036</u>

## 15. Capital Commitment

The Group did not have any significant capital commitment as at 30th June 2005.

## 16. Contingent Liability

The Group did not have any significant contingent liabilities as at 30th June 2005.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30th June 2005.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

The Group is principally engaged in the manufacture, retail and wholesale of jewellery products appealing to Japanese and Mainland China tourists who are substantially referred to the Group by the inbound tour operators. For the Japanese tourists, the Group has entered into Business Cooperation Agreements with the inbound Japanese tour operators for an initial term of three years and then renewable annually thereafter.

Since the adoption of Individual Visa Scheme (“IVS”) by the Mainland China Government in July 2003, the visitors from Mainland China has been maintaining at high level. For the past six months, arrival visitors from Mainland China was about 1 million per month and accounted for over 50% of total arrival visitors from all countries as per the Hong Kong Tourism Board (“HKTB”) publication.

In addition, the number of arrival visitors from Japan for the period from January to May 2005 had also showed a notable growth of 26.4% from the same period of last year however, the pace of growth was slowed down in May 2005 onwards as a result of the launching of anti-Japanese marches in several cities of Mainland China over the controversy of Japanese’s history of aggression.

## **Turnover**

Turnover for the three months and six months ended 30th June 2005 were HK\$13,262,000 and HK\$28,124,000 (2004: HK\$9,427,000 and HK\$13,785,000) respectively which demonstrated a significant improvement of 40.7% and 104% over the same periods of last year. The improvement in turnover was mainly attributed to the Group's effort in widening its customer base to retail sales from visitors of Mainland China since July 2004 which has accounted for 18% of the total turnover in the period under review.

Moreover, the global economic bloom together with the non-recurrence of bird flu and SARS infection cases in 2005 have fostered a healthy growth of tourism in Hong Kong and leading to desirable increment in turnover in the current period.

## **Gross profit**

Gross profit for the three months and six months ended 30th June 2005 were HK\$9,511,000 and HK\$20,566,000 (2004: HK\$6,160,000 and HK\$8,709,000) respectively. The gross profit margins have improved from 65% to 71.7% for the three months ended 30th June 2005 and 63% to 73.1% for the six months ended 30th June 2005 over the same corresponding periods of last year respectively. Because of the improvement in gross profit margins, the magnitude of increment in gross profit was slightly higher than the increment in turnover for 54% and 1.36 times respectively for the three months and six months ended 30th June 2005 over the same corresponding periods of last year.

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

In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005 and the most significant of which affecting the Group's results was HKFRS 2 — Share Based Payment.

Because of the HKFRS 2, the Group has suffered a net loss from ordinary activities attributable to shareholders irrespective of the fact that there were improvements in both turnover and gross profit.

However, if we excluded the effects of HKFRS 2 for analysis purpose only, there would be net profit from ordinary activities attributable to shareholders for the three months and six months ended 30th June 2005 of HK\$780,000 and HK\$2,577,000 respectively which demonstrated a great improvement from the last corresponding periods for the three months and six months ended 30th June 2004 of a net profit of HK\$240,000 and a net loss of HK\$1,380,000 respectively.

## **BUSINESS OUTLOOK AND PROSPECTS**

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

It is expected that 2005 to 2009 will be the high growth stage of tourism industry upon the opening of Disneyland Hong Kong in September 2005; the Wetland Park and the Tung Chung Cable car connecting to the Big Buddha in 2006; the hosting of Olympic Games by Beijing in 2008 and the hosting of East Asia Game by Hong Kong in 2009.

In addition, the existing 32 Mainland China cities with an approximate 150 million of Mainland China citizens that are eligible under the Individual Visa Scheme as adopted since July 2003 by the Mainland China Government for more convenient travel to Hong Kong will be a huge uncharted source of visitors that will flourish the growth of tourism industry in Hong Kong.

The recent anti-Japanese marches in Mainland China and the potential instability that may be brought by the protestors against World Trade Organization (“WTO”) meeting to be held in Hong Kong at December 2005 will have a short-term effect on tourism. Given the above excellent factors facilitating the growth of tourism in Hong Kong for the coming years and traditionally stable economical and political environments in Hong Kong, the Board believes that the political impacts will be temporary and will only have a moderate effect on the industry.

By reference to the Company’s announcements on the GEM website in the second quarter of 2005, the Company’s share trading has been suspended on 1st June 2005 and pending for the completion of the compulsory acquisition until the withdrawal of the listing of the Company’s shares from the GEM as a result of the mandatory and unconditional cash offer by Standbrook Enterprises Limited to acquire all the issued shares and the share options of the Company (detailed reference should be made to the Company’s circular dated 27th April 2005). Softbank Finance Corporation has now beneficially owned 99.78% equity interests in the Company and it is expected that in the near future the Company will have more opportunities in working with the subsidiaries and associated companies of the Softbank Group and bringing synergy to each others.

#### **COMPARISION OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

<b>Business Objectives for the six months ended 30th June 2005</b>	<b>Actual Business Progress</b>
<p><b>Extension of business into e-commerce:</b></p> <p>1. In order to better serve the Group’s customers and enhance its after-sales customer services, the existing website <a href="http://www.laifai.com.hk">www.laifai.com.hk</a> will be enriched by including members’ section products update, news and profile of the Group</p> <ul style="list-style-type: none"> <li>• Setting up IT department, investment in computer hardware and software and maintaining the website</li> </ul> <p>2. Develop an e-commerce platform for the promotion and sales of the Group’s products on the Internet</p> <ul style="list-style-type: none"> <li>• Setting up logistic support and delivery channels for Internet sales</li> <li>• Investment in software and manpower for enhancing internet security, payment gateway, firewall, anti-hacking. etc.</li> <li>• Investment in hardware for processing internet sales, data management data security, backup, etc.</li> </ul>	<p>Continual improvements of the Group’s hardware infrastructure are made as scheduled.</p> <p>System planning and development had been started as scheduled.</p>

## COMPARISON OF PROPOSED USE OF THE INITIAL PUBLIC OFFERING (“IPO”) PROCEEDS WITH THE ACTUAL USE OF THE IPO PROCEEDS

The Group raised net proceeds from the new listing of the Company’s shares by way of new issue and offer for sale on the GEM in February 2003 of approximately HK\$16.4 million.

The table below sets out the details of the application of the net proceeds:

	<b>Proposed use of the IPO Proceeds as approved in the EGM on 8th June 2004 <i>HK\$’000</i></b>	<b>IPO Proceeds utilized up to 30th June 2005 <i>HK\$’000</i></b>
Expansion of geographical coverage of sales operation		
— Japan	2,600	<b>2,683</b>
— Mainland China	4,100	<b>1,067</b>
Extension of business into e-commerce	1,400	<b>181</b>
Expansion of business to cover Mainland China tourists under the IVS	3,300	<b>2,968</b>
Additional working capital	<u>5,000</u>	<u><b>4,114</b></u>
Total	<u><u>16,400</u></u>	<u><u><b>11,013</b></u></u>

*Note:* The cash and bank balances of the Group as at 30th June 2005 were HK\$12.5 million which can sufficiently cover the planned usage of net proceeds for the development of the Group’s business objectives as set out in the Prospectus and the Circular. The net IPO proceeds remain unutilized at 30th June 2005 was all retained in the Group’s Hong Kong Dollars saving account.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2005, the Group had total assets of approximately HK\$43.9 million, including cash and bank balances of approximately HK\$12.5 million. The Group will continue to finance its operations from its sales operations.

With its net current assets of approximately HK\$43.7 million, current ratio of 15.9 and quick ratio of 6, the Group remains in a financially liquid position as at 30th June 2005, the Group have adequate financial resources to meet its ongoing operations and development requirements in the coming year.

## GEARING RATIO

The Group did not have any bank borrowing or bank overdrafts as at 30th June 2005. The Group’s gearing ratio defined as total interest-bearing debt to shareholders’ fund was 0% as at 30th June 2005.

## **CAPITAL STRUCTURE**

Since the listing of the Company's shares on the GEM of the Stock Exchange on 26th February 2003, except for the exercise of share options in the 3rd quarter of 2004 by the eligible persons pursuant to the Pre-IPO Share Option Plan of the Company adopted on 5th February 2003 and the cancellation of all outstanding Pre-IPO Share Options under the mandatory unconditional cash offer by Standbrook Enterprises Limited as per circular dated 27th April 2005, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

## **FUNDING AND TREASURY POLICY**

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

## **SIGNIFICANT INVESTMENTS**

There was no significant investment during the period.

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

Except for those disclosed in the Business Objectives Review, the Company and the Group had no material acquisitions or disposals nor plans for material investments or capital assets.

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

For the six months ended 30th June 2005, approximately 76% of the Group's income was denominated in Hong Kong dollars or US dollars, with the remaining denominated in Yen and Renminbi. For the same period, over 95% of the Group's expenditure was denominated in Hong Kong dollars, with the remaining denominated in Yen and Australian dollars. The Group received cash in Japanese Yen, Renminbi, Hong Kong dollars and US dollars from its retail operations in the approximate proportion of 42%, 44%, 10% and 4%, respectively for the six months ended 30th June 2005. The Group generally charges a small premium over the market exchange rate if the customer pays in Yen and Renminbi, and convert the Yen and Renminbi receipts to Hong Kong dollars on the next banking day. As such, the Group faces minimal foreign exchange risks.

## **EMPLOYEES**

As at 30th June 2005, the Group's headcount amounted to 66 employees. The total staff costs (excluding directors' emoluments), including retirement benefits scheme contributions amounted to approximately HK\$4,424,000 for the six months ended 30th June 2005. Employees are remunerated in accordance to their performance and working experience.

## **CORPORATE GOVERNANCE**

The Board considers that the Company has complied with the Code of Corporate Governance Practice and Rules on Corporate Governance Report as set out in the GEM Listing Rules Appendix 15 with effective from the accounting periods from 1st January 2005.



## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY THE DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by the Directors throughout the six months ended 30th June 2005.

### **RULE 17.15 TO 17.21 OF THE GEM LISTING RULES**

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

### **DIRECTORS' SERVICE CONTRACTS**

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

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

### **DIRECTORS' INTERESTS IN CONTRACTS**

Except for those disclosed in the paragraph headed "Connected Transactions" in the Company's annual report 2004, none of the directors had any material beneficial interests, either direct or indirect, in any contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the six months ended 30th June 2005.

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

As at 30th June 2005, there were not any interests of the directors and the chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules relating to securities transactions by directors.

#### **Long positions in shares and underlying shares of the Company**

As at 30th June 2005, none of the directors and the chief executive of the Company or their associates had any interests or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 of the GEM Listing Rules relating to securities transactions by directors.

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

So far as the directors or chief executive of the Company are aware, as at 30th June 2005, the persons (not being directors and the chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant Divisions 2 and 3 of Part XV of the SFO and required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, were as follows:

### Long position in shares of the Company

Name of shareholders	Note	Capacity and nature of interest shares	Number of Ordinary shares held	Percentage of the Company's issued share capital as at 30th June 2005
Standbrook Enterprises Limited ("SEL")	1	Directly beneficially owned	90,391,000	70.10
Artfolio Corporation ("Artfolio")	1	Directly beneficially owned	27,955,200	21.68
Softbank Finance Corporation ("SBF")	1	Through a controlled corporation	90,391,000	70.10
	1	Through a controlled corporation	27,955,200	21.68
	1	Directly beneficially owned	10,316,800	8.00
				99.78

*Note:*

1. Artfolio is beneficially owned as to 84.02% by SBF. Accordingly, SBF shall be deemed to be interested in the same block of shares held by Artfolio under the SFO.

SEL is beneficially owned as to 100% by Artfolio. Accordingly, SBF shall also be deemed to be interested in the same block of shares held by SEL under the SFO.

### Long positions in underlying shares of the Company

Save as disclosed above, as at 30th June 2005, the Company had not been notified of any other person (other than a director or chief executive of the Company) who had any interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, or were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.



## **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

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

## **COMPLIANCE ADVISOR’S INTERESTS**

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

Except for the above, as notified by CASH, none of the compliance advisor or any of its directors or employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the shares of the Company or any members of the Group or any rights to subscribe for or to nominate persons to subscribe for the shares of the Company or any members of the Group as at 30th June 2005 and the date of this announcement respectively.

## **COMPETING INTEREST**

Saved as those disclosed in the Prospectus and this announcement, as at 30th June 2005, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

## **AUDIT COMMITTEE**

The Company set up an audit committee on 5th February 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.28 and 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly and one executive director, namely, Mr. Li Shui. Mr. Mak Tak Cheong, Edmund is the chairman of the audit committee. The Group’s interim results for the three months and six months ended 30th June 2005 have been reviewed by the audit committee, who are of the opinion that such announcement complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Since its establishment, the audit committee met 10 times, reviewing the Company’s and the Group’s reports and results announcements as well as providing advice and recommendations to the directors of the Company.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since the listing of the Company’s shares on the GEM on 26th February 2003.

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 30th June 2005.

On behalf of the Board  
**Lai Fai International Holdings Limited**  
**Li Shui**  
*Executive Chairman*

Hong Kong, 11th August 2005

*As at the date of this announcement, the Board comprises of 2 executive directors, being Mr. Li Shui and Mr. Lee You; 2 non-executive directors, being Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence; 3 independent non-executive directors, being Mr. Ho Hou Chiu, William, Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly.*

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