



**LAI FAI INTERNATIONAL HOLDINGS LIMITED**

麗輝國際控股有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**FIRST QUARTERLY REPORT**

**2003**

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

**GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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

**HIGHLIGHTS:**

- Turnover of the Group for the 3 months ended 31 March 2003 was approximately HK\$9.3 million, representing an increase of approximately 13.6% as compared with the corresponding period in 2002.
- The Group achieved an unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$620,000 for the 3 months ended 31 March 2003, representing an increase of approximately 171.9% as compared with the corresponding period in 2002.
- Earnings per share for the 3 months ended 31 March 2003 was HK cents 0.553.

## RESULTS

The board of directors (the “Board”) of Lai Fai International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated quarterly results of the Company and its subsidiaries (collectively referred to as the “Group”) for the 3 months ended 31 March 2003, together with the comparative unaudited figures for the corresponding period in 2002 (the “Relevant Periods”) as follows:

	<i>Notes</i>	<b>For the 3 months ended</b>	
		<b>31 March</b>	
		<b>2003</b>	2002
		<b>Unaudited</b>	Unaudited
		<b>HK\$'000</b>	HK\$'000
<b>Turnover</b>	3	<b>9,333</b>	8,213
Cost of sales		<b>(2,618)</b>	(2,617)
<b>Gross profit</b>		<b>6,715</b>	5,596
Other revenue and gains		<b>9</b>	1
Selling and distribution costs		<b>(3,183)</b>	(3,086)
General and administrative expenses		<b>(2,719)</b>	(2,203)
<b>Profit from operating activities</b>		<b>822</b>	308
Finance cost		<b>(9)</b>	(7)
<b>Profit before tax</b>		<b>813</b>	301
Tax	4	<b>(193)</b>	(73)
<b>Net profit from ordinary activities</b> <b>attributable to shareholders</b>		<b>620</b>	228
<b>Dividend — special dividend</b>	5	<b>4,697</b>	0
Earnings per share	6		
— Basic, HK cents		<b>0.553</b>	0.223
— Diluted, HK cents		<b>0.541</b>	N/A

*Notes:*

## **1. Group Reorganisation and Basis of Presentation**

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6 September 2002 under the Companies Law of the Cayman Islands. Pursuant to a group reorganisation to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange on 5 February 2003 (the "Group Reorganisation"), the Company became the holding company of the companies now comprising the Group. Further details of the Group Reorganisation are set out in the prospectus of the Company dated 11 February 2003 (the "Prospectus"). The shares of the Company were listed on the GEM of the Stock Exchange on 26 February 2003.

The unaudited consolidated results have been prepared using the merger basis of accounting. Under this basis, the Company has been accounted for as the holding company of its subsidiaries acquired through the Group Reorganisation for both periods presented, rather than from the date of their acquisition through the Group Reorganisation on 5 February 2003. Accordingly, the unaudited consolidated results of the Group for the 3 months ended 31 March 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1 January 2002 or since their respective dates of incorporation, where this is a shorter period.

The Group's unaudited consolidated results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. The accounting policies adopted in preparing the unaudited consolidated results for the 3 months ended 31 March 2003 and 2002 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2002.

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

## **2. Segment Information**

The Company is an investment holding company and the principal activities of the Group are the sourcing, production, retail and wholesale of jewellery products in Hong Kong. During the periods under review, over 90% of the Group's revenue, results, assets and liabilities were derived from Hong Kong, accordingly, no business or geographical segment information is presented.

## **3. Turnover**

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

## **4. Tax**

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the Relevant Periods.

There is no significant unprovided deferred taxation during the Relevant Periods.

## **5. Dividend**

Other than a special dividend proposed by the Board at a meeting on 27 March 2003 and approved by the Company's shareholders at the annual general meeting on 30 April 2003 for which the payment was made on 12 May 2003 for a special dividend of HK 3.67 cents per share for the year ending 31 December 2003 amounting in aggregate to HK\$4,697,600 to the Company's shareholders whose names appeared on the register of members of the Company on 30 April 2003, the Board does not recommend an interim dividend for the 3 months ended 31 March 2003 (2002: Nil).

## **6. Earnings Per Share**

The calculation of basic earnings per share for the 3 months ended 31 March 2003 was based on the unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$620,000 (2002: HK\$228,000) divided by the weighted average number of 112,071,111 (2002: 102,400,000) shares deemed to be in issue throughout the year.

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

No diluted loss per share has been presented for the 3 months ended 31 March 2002, as the Company did not have any dilutive potential ordinary shares.

## 7. Movement on Reserves

	<b>Share Premium</b> <i>HK\$'000</i>	<b>Contributed Surplus</b> <i>HK\$'000</i>	<b>Retained Earnings</b> <i>HK\$'000</i>	<b>Proposed Special Dividend</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Unaudited</b>					
At 1 January 2002	—	2,999	4,383	—	7,382
Arising from the Group					
Reorganisation	—	18,178	—	—	18,178
Net profit from ordinary activities attributable to shareholders for the period	—	—	228	—	228
At 31 March 2002	<u>—</u>	<u>21,177</u>	<u>4,611</u>	<u>—</u>	<u>25,788</u>
<b>Unaudited</b>					
At 1 January 2003	—	21,177	12,514	—	33,691
Arising on placement of 25.6 million new shares	23,040	—	—	—	23,040
Capitalisation issue	(10,239)	—	—	—	(10,239)
Listing expenses	(9,138)	—	—	—	(9,138)
Special dividend of HK3.67 cents per share	—	—	—	(4,697)	(4,697)
Net profit from ordinary activities attributable to shareholders for the period	—	—	620	—	620
At 31 March 2003	<u>3,663</u>	<u>21,177</u>	<u>13,134</u>	<u>(4,697)</u>	<u>33,277</u>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

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

Substantially all of the Group's retail customers are referred by inbound Japanese tour operators in Hong Kong with whom the Group has entered into Business Cooperation Agreements for an initial term of three years and then annually renewable in order to secure Japanese tour groups visiting the Group's retail outlet.

## **Turnover**

During the periods under review, the number of Japanese visitors coming to Hong Kong during the first quarter of 2002 and 2003 as published by the Hong Kong Tourism Board were 332,848 and 325,431 respectively. Comparing with the same period of last year, there was a slight drop of 2.2% in the current quarter. This was partly attributed to the declaration of war on Iraq by the U.S. government on 20 March 2003 and partly due to the general concern of the fatal disease — atypical pneumonia that was first found in Hong Kong on 10 March 2003. Accordingly, Japanese visitors coming to Hong Kong has shrunk significantly since mid-March 2003.

Irrespective of the sharp downturn in the number of Japanese visitors since mid-March 2003, the Group has sustained a stable growth in turnover of approximately 13.6% over the last corresponding period through the delivery of high quality sale services and prolific collection of jewellery products to the Group's customers. Turnover was approximately HK\$9.3 million in the current quarter and approximately HK\$8.2 million in the last corresponding period.

## **Gross profit**

Gross profit has increased by approximately 20% over the last corresponding period because of an improvement in gross profit margin from approximately 68% to 72% for the periods under review. It was a result of the Group's continual efforts in cost control and the adoption of "One-Stop-Shop" model. The Group is now operating in the veteran stage of the "One-Stop-Shop" model and has successfully decreased the cost of sales and improved the gross profit margin.

Gross profit was approximately HK\$6.7 million in the current period and approximately HK\$5.6 million in the last corresponding period.

## **Net profit from ordinary activities attributable to shareholders**

The unaudited net profit from ordinary activities attributable to shareholders was approximately HK\$620,000 in the current period and approximately HK\$228,000 in the last corresponding period. Significant improvement of 171.9% over the last corresponding period was mainly attributed to the improvement in the gross profit margin and the percentage decrement in selling and distribution costs which, nonetheless, was partly offset by the increment in general and administration expenses.

Service fees payable to inbound Japanese tour operators was the major component of the Group's selling and distribution costs. There was a percentage decrement in service fees payable in the current period as a result of the Group's established market position and brand name which enabled the Group to maintain services fees payable to the Japanese tour operators at a more favourable level.

General and administrative expenses have unavoidably increased in the current period as a result of payment or accruals for the Stock Exchange listing fee, higher audit fee and printing fee for publication of financial statements which were not incurred in the last corresponding period.



## **Business Outlook and Prospect**

Although the U.S. government declared that the Iraq war was over on 1 May 2003, it was followed by the outbreak of atypical pneumonia which has a more profound social and economic impact to Hong Kong, especially in the sectors of tourism, air transportation, retailing and catering industries. The Group had made an announcement on the GEM website on 25 April 2003 pursuant to paragraph 17.10 of the GEM Listing Rules of the Stock Exchange to warn the Company's shareholders and public investors to exercise caution when dealing in the Company's shares.

As the World Health Organisation has not yet withdrawn its travel advisory against non-essential travel to Hong Kong at the date of this report, the Board does not currently have a view as to how long the disruption of atypical pneumonia to the Group's business will last nor the degree of financial impact to the Group. Nevertheless, the recent dropping in the number of daily infection of atypical pneumonia and the global adoption of precautionary measures against this disease will sooner bring situation under control and restore tourists' confidence in visiting Hong Kong in the near future.

In the meantime, the Board has responded to the abrupt disruption to its business by controlling costs and preserving reserves on one hand and enhancing the Group's wholesale activities on the other, although such measures may not immediately become apparent in the short term.

Referring to the Prospectus, without any material and adverse changes in political, legal, fiscal, economical and market conditions in Hong Kong, Japan and the PRC, the Group will commence research and feasibility studies on the Japan jewellery market in the coming quarter and initiate the expansion project in Japan in the second half of this year as scheduled.

## **DIRECTORS' INTERESTS IN SECURITIES**

### **Directors' Interests in Shares**

As at 31 March 2003, the interests of the directors and their associates in the listed share capital of the Company or its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

### **Shares of the Company**

<b>Director</b>		<b>Number of shares held and nature of interest Corporate</b>
Mr. Li Shui	<i>Note</i>	<u>51,456,000</u>

*Note:*

The 51,456,000 shares are registered in the name of Best Perfect International Limited (“Best Perfect”) whose issued share capital is held by Mr. Li Shui as to 91.2%. Mr. Li Shui is also a director of Best Perfect.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in the equity or debt securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

## **DIRECTORS’ RIGHTS TO ACQUIRE SHARES**

Save as disclosed under the heading “Share Option Schemes” below, at no time during the 3 months ended 31 March 2003 were rights to acquire benefits by means of the acquisition of shares in or debentures of 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.

## **SHARE OPTION SCHEMES**

Pursuant to the terms of the Pre-IPO plan (“Pre-IPO Plan”) adopted by the Company on 5 February 2003, options for subscribing the shares of the Company were granted on 5 February 2003 and remained outstanding as at 31 March 2003 as follows:

<b>Name of grantee</b>	<b>Exercise price</b>	<b>Number of shares subject to the options</b>
Shareholder:		
Best Perfect	HK\$0.10	4,010,000
Directors:		
Mr. Yoshitaka Kitao	HK\$0.10	1,300,000
Mr. Yu Kam Kee, Lawrence	HK\$0.10	500,000
Mr. Ty Siao Kian, George	HK\$0.10	500,000
Mr. Che King Lun, Frankly	HK\$0.10	400,000
Mr. Mak Tak Cheong, Edmund	HK\$0.10	200,000
Other employees:		
In aggregate	HK\$0.10	<u>1,090,000</u>
		<u><u>8,000,000</u></u>

Under the terms of a share option scheme (the “Scheme”) adopted by the Company on 5 February 2003, the Board or a duly authorised committee (the “Committee”) may, at its absolute discretion, 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 the Company’s shares. The Scheme became effective upon the listing of the Company’s shares on the GEM of the Stock Exchange on 26 February 2003. No options had been granted to any directors or employees under the Scheme as at 31 March 2003.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31 March 2003, shareholders with an interest of 10% or more in the issued share capital of the Company, recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, were as follows:

<b>Name of shareholders</b>	<i>Notes</i>	<b>Number of shares</b>	<b>Approximate percentage of the Company’s issued capital</b>
Best Perfect	<i>(i)</i>	51,456,000	40.20%
Artfolio Corporation (“Artfolio”)	<i>(ii)</i>	27,955,200	21.84%
Softbank Investment International (Strategic) Limited (“SIIS”)	<i>(iii)</i>	14,028,800	10.96%

### *Notes:*

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

Best Perfect has been granted options to subscribe for an aggregate of 4,010,000 shares of the Company at an exercise price of HK\$0.10 per share pursuant to the terms of the Pre-IPO Plan as disclosed under the heading “Share Option Schemes” above.

- (ii) Artfolio is beneficially owned as to 84.02% by Softbank Finance Corporation (“Softbank Finance”). Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by Artfolio under the SDI Ordinance.

- (iii) SIIS is beneficially owned as to 37.29% by Softbank Investment (International) Holdings Limited (“Softbank Holdings”). Accordingly, Softbank Holdings shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance.

Softbank Holdings is wholly owned by Softbank Investment Corporation (“Softbank Investment”). Accordingly, Softbank Investment shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance.

Softbank Investment is beneficially owned as to approximately 66.06% by Softbank Finance which in turns holds approximately 10.65% of the share capital of SIIS. Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by SIIS under the SDI Ordinance, in addition to those shares owned by Artfolio as detailed in note (ii) above.

Save as disclosed above, no other person had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance

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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the 3 months ended 31 March 2003.

## **COMPETING INTEREST**

Saved as those disclosed in the Prospectus, as at 31 March 2003, 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.

## **SPONSORS’ INTERESTS**

As notified by the Company’s sponsors, Celestial Capital Limited (“CASH”) and SBI E2-Capital Limited (“SBI E2-Capital”) (collectively the “Sponsors”), neither themselves nor its directors, employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or any members of the Group or any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group as at 31 March 2003 other than the following in relation to SBI E2-Capital (who is a subsidiary of SIIS):

- (i) the shareholding interests of Artfolio Corporation and SIIS in the Company;
- (ii) shareholdings and/or interests in companies or joint ventures which the Softbank Finance Corporation and its subsidiaries may co-invest with the Group under the Softbank Memorandum of Understanding dated 9 September 2002 or which Softbank Finance Corporation, Softbank Investment Corporation and their respective subsidiaries may co-invest with the Group under the agreement dated 5 February 2003; and

- (iii) the options granted by the Company to Mr. Yoshitaka Kitao and Mr. Yu Kam Kee, Lawrence, both of whom are directors of SIIS, under the Pre-IPO Plan to subscribe for shares of the Company as disclosed in this report.

Pursuant to the agreement dated 10 February 2003 entered with the Company, CASH and SBI E2-Capital received, and will receive, fees for acting as the Company's retained sponsors for the period from the listing date or 26 February 2003 to 31 December 2005 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

## **AUDIT COMMITTEE**

The Company set up an audit committee on 5 February 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly and one executive director, namely, Mr. Li Shui. Mr. Mak Tak Cheong, Edmund is the chairman of the audit committee. The Group's first quarterly results for the 3 months ended 31 March 2003 have been reviewed by the audit committee, who are of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

## **BOARD PRACTICES AND PROCEDURES**

The Company has complied with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of the Company's shares on the GEM on 26 February 2003.

On behalf of the Board  
**Li Shui**  
*Executive Chairman*

Hong Kong, 15 May 2003