



LAI FAI INTERNATIONAL HOLDINGS LIMITED

麗輝國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

INTERIM 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.

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.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Lai Fai International Holdings Limited 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 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

- Hong Kong was under a tough time from April to June 2003 and the adverse impact brought by the Severe Acute Respiratory Syndrome (“SARS”) had led to a global health concern and slump in tourism. Comparing with the corresponding periods in last year, turnover for the 3 months and 6 months ended 30th June 2003 has dropped by approximately 96% and 54% respectively as a result of a sharp shrinkage in the number of tourists visiting Hong Kong.
- The drastic decrease in turnover had also led to a net loss from ordinary activities attributable to shareholders for about HK\$2,461,000 and HK\$1,841,000 for the 3 months and 6 months ended 30th June 2003 (3 months and 6 months ended 30th June 2002: profits of HK\$4,757,000 and HK\$4,485,000) respectively.
- The Group did not have any bank overdrafts or loans and has maintained sufficient liquid cash of approximately HK\$13.8 million as at 30th June 2003.
- Loss per shares were 1.923 HK cents and 1.533 HK cents for the 3 months and 6 months ended 30th June 2003.
- The Board does not recommend the payment of a dividend for the 6 months ended 30th June 2003.

INTERIM RESULTS

The board of directors (the “Board”) of Lai Fai International Holdings Limited (the “Company”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “Group”) for the 3 months and 6 months ended 30th June 2003, together with the comparative unaudited figures for the corresponding periods in 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Three months ended 30th June		Six months ended 30th June	
		2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Turnover	3	473	13,245	9,806	21,458
Cost of sales		<u>(622)</u>	<u>(2,860)</u>	<u>(3,240)</u>	<u>(5,996)</u>
Gross (loss)/profit		(149)	10,385	6,566	15,462
Other revenue and gains		40	35	49	85
Selling and distribution costs		(294)	(3,134)	(3,477)	(6,219)
General and administrative expenses		<u>(2,244)</u>	<u>(2,459)</u>	<u>(4,963)</u>	<u>(4,693)</u>
(Loss)/Profit from operating activities	4	(2,647)	4,827	(1,825)	4,635
Finance cost	5	<u>(7)</u>	<u>(8)</u>	<u>(16)</u>	<u>(15)</u>
(Loss)/Profit before tax		(2,654)	4,819	(1,841)	4,620
Tax	6	<u>193</u>	<u>(62)</u>	<u>—</u>	<u>(135)</u>
Net (loss)/profit from ordinary activities attributable to shareholders		<u>(2,461)</u>	<u>4,757</u>	<u>(1,841)</u>	<u>4,485</u>
Dividend — special dividend	7	<u>—</u>	<u>—</u>	<u>(4,697)</u>	<u>—</u>
(Loss)/earnings per share	8				
— Basic, HK cents		<u>(1.923)</u>	4.646	<u>(1.533)</u>	4.380
— Diluted, HK cents		<u>(1.824)</u>	N/A	<u>(1.474)</u>	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) Condensed Consolidated 30th June 2003 HK\$'000	(Audited) Pro form Combined 31st December 2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		1,784	2,024
Other asset		296	303
		<u>2,080</u>	<u>2,327</u>
CURRENT ASSETS			
Inventories		27,373	27,323
Accounts receivable	9	—	296
Prepayments, deposits and other receivables		3,207	6,540
Pledged time deposit		83	83
Cash and bank balances		13,752	1,141
		<u>44,415</u>	<u>35,383</u>
CURRENT LIABILITIES			
Accounts payable	10	479	591
Accruals and other payables		513	1,305
Trade deposit received		627	712
Tax payable		1,110	1,110
Finance lease payable		150	300
		<u>2,879</u>	<u>4,018</u>
NET CURRENT ASSETS		<u>41,536</u>	<u>31,365</u>
		<u>43,616</u>	<u>33,692</u>
CAPITAL AND RESERVES			
Issued capital		12,800	1
Reserves	11	30,816	33,691
		<u>43,616</u>	<u>33,692</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) 6 months ended 30th June 2003 HK\$'000
Net cash from operating activities	1,070
Net cash outflow from returns on investment and servicing of finance	(4,698)
Net cash used in investing activities	(74)
Net cash from financing activities	16,313
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,611
Cash and cash equivalents at beginning of period	1,224
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13,835
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:	
Cash and bank balances	13,835

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited) Share Capital HK\$'000	(Unaudited) Share Premium HK\$'000	(Unaudited) Contributed Surplus HK\$'000	(Unaudited) Retained Earnings HK\$'000	(Unaudited) Total HK\$'000
At 1st January 2002	1	—	2,999	4,383	7,383
Arising from the Group Reorganisation	—	—	18,178	—	18,178
Net profit from ordinary activities attributable to shareholders for the period	—	—	—	4,485	4,485
At 30th June 2002	1	—	21,177	8,868	30,046
At 1st January 2003	1	—	21,177	12,514	33,692
Issue of shares	12,799	—	—	—	12,799
Arising on placement of 25.6 million new shares	—	23,040	—	—	23,040
Capitalisation issue	—	(10,239)	—	—	(10,239)
Share issue expenses	—	(9,138)	—	—	(9,138)
Special dividend of HK3.67 cents per share	—	—	—	(4,697)	(4,697)
Net loss from ordinary activities attributable to shareholders for the period	—	—	—	(1,841)	(1,841)
At 30th June 2003	12,800	3,663	21,177	5,976	43,616

Notes:

1. Group Reorganisation and Basis of Presentation

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 6th 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 5th 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 11th February 2003 (the "Prospectus"). The shares of the Company were listed on the GEM of the Stock Exchange on 26th February 2003.

The unaudited condensed consolidated quarterly and interim results of the Group 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 5th February 2003. Accordingly, the unaudited condensed consolidated interim results of the Group for the 6 months ended 30th June 2003 and 2002 include the results of the Company and its subsidiaries with effect from 1st January 2002 or since their respective dates of incorporation, where this is a shorter period.

The unaudited condensed consolidated quarterly and interim results have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee. The unaudited condensed consolidated quarterly and interim report of the Group have been prepared in accordance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The Group's unaudited condensed consolidated interim results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the HKSA. The accounting policies adopted in preparing the unaudited condensed consolidated quarterly and interim results for the 3 months and 6 months ended 30th June 2003 and 2002 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st December 2002.

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

SSAP 12 (Revised) "Income Taxes"

The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods.

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. Operating (loss)/profit

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

	Three months ended		Six months ended	
	30th June		30th June	
	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2002 (Unaudited) <i>HK\$'000</i>
Cost of inventories sold	622	2,860	3,240	5,996
Staff costs (excluding directors' emoluments):				
Wages and salaries	686	1,078	2,069	2,209
Retirement benefits scheme contributions	30	39	93	97
Total staff costs	716	1,117	2,162	2,306
Directors' emoluments:				
Wages and salaries	467	569	992	1,138
Retirement benefits scheme contributions	6	6	12	12
Total directors' emoluments	473	575	1,004	1,150
Depreciation	157	149	314	235
Amortisation of other asset	4	4	8	8
Minimum lease payments under operating lease in respect of land and building	451	566	903	1,128
Interest income	(40)	(2)	(40)	(2)
Gain on disposal of fixed assets	—	—	—	(30)
Exchange gains, net	—	(7)	(2)	(9)

5. Finance Cost

Finance cost represents interest on finance lease.

6. Tax

Provision for Hong Kong profits tax in the amount of HK\$193,000 for the first quarter of 2003 was credited back in the second quarter of 2003 because the Group's operating loss in the current quarter had outweighed the operating profit in the previous quarter.

No provision for Hong Kong profits tax was made for the six months ended 30th June 2003 as the Group had no estimated assessable profit in that period.

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the 3 months and 6 months ended 30th June 2002.

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

7. Dividend

Other than a special dividend proposed by the Board at a meeting on 27th March 2003 and approved by the Company's shareholders at the annual general meeting on 30th April 2003 for which the payment was made on 12th May 2003 for a special dividend of HK3.67 cents per share for the year ending 31st 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 30th April 2003, the Board does not recommend an interim dividend for the 6 months ended 30th June 2003 (6 months ended 30th June 2002: Nil).

8. Earnings Per Share

The calculation of basic loss per share for the 3 months and 6 months ended 30th June 2003 was based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$2,461,000 and HK\$1,841,000 respectively (3 months and 6 months ended 30th June 2002: profits of HK\$4,757,000 and HK\$4,485,000) divided by the weighted average number of 128,000,000 and 120,079,558 (3 and 6 months ended 30th June 2002: 102,400,000) shares respectively deemed to be in issue throughout the periods.

No diluted earning per share has been presented for the 3 months and 6 months ended 30th June 2002, as the Company did not have any dilutive potential ordinary shares.

The calculation of diluted loss per share for the 3 months and 6 months ended 30th June 2003 was based on the unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$2,461,000 and HK\$1,841,000 respectively. The weighted average number of ordinary shares used in the calculation is 134,933,333 and 124,896,104, comprising 128,000,000 and 120,079,558 ordinary shares in issue during the 3 months and 6 months ended 30th June 2003 respectively, as used in the basic loss per share calculation; and the weighted average of 6,933,333 and 4,816,546 ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the 3 months and 6 months ended 30th June 2003 respectively.

9. Accounts receivable

The balances as at 31st December 2002 represented receivables from financial institutions in respect of credit card receivables and are aged within one week. No credit term was granted to the Group's customers as the Group's sales were made by cash, traveler's cheques or credit cards.

10. Accounts Payable

The aged analysis of the accounts payable of the Group is as follows:

Outstanding balances with ages:

	(Unaudited) Condensed Consolidated 30th June 2003 <i>HK\$'000</i>	(Audited) Pro form Combined 31st December 2002 <i>HK\$'000</i>
Within 30 days	14	134
Between 31 and 60 days	—	320
Between 61 and 180 days	331	56
Between 181 days and 365 days	47	—
Over 365 days	87	81
	<u>479</u>	<u>591</u>

11. Movement on Reserves

	(Unaudited) Share Premium <i>HK\$'000</i>	(Unaudited) Contributed Surplus <i>HK\$'000</i>	(Unaudited) Retained Earnings <i>HK\$'000</i>	(Unaudited) Total <i>HK\$'000</i>
At 1st January 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	—	—	4,485	4,485
At 30th June 2002	—	21,177	8,868	30,045
At 1st January 2003	—	21,177	12,514	33,691
Arising on placement of 25.6 million new shares	23,040	—	—	23,040
Capitalisation issue	(10,239)	—	—	(10,239)
Share issue expenses	(9,138)	—	—	(9,138)
Special dividend of HK3.67 cents per share	—	—	(4,697)	(4,697)
Net loss from ordinary activities attributable to shareholders for the period	—	—	(1,841)	(1,841)
At 30th June 2003	<u>3,663</u>	<u>21,177</u>	<u>5,976</u>	<u>30,816</u>

12. Related Party Transactions

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

Nature of transactions	<i>Note</i>	(Unaudited) Six months ended 30th June 2003 <i>HK\$'000</i>	(Unaudited) Six months ended 30th June 2002 <i>HK\$'000</i>
Transactions with Reiki Funaya K.K. (“Funaya”)*			
Sale of goods	(i)	—	812

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

Note:

- (i) Sale of goods were made based on amounts which were equal to the cost of those inventories purchased by the Company plus an average margin of 22%.

In addition to the above, post-listing co-sponsorship fee of HK\$8,333 per month and public relations service fee of HK\$18,000 per month were paid to SBI E2-Capital Securities Limited (“SBI E2-Capital”) and Ebizal Marketing (Hong Kong) Limited (“Ebizal”) respectively commencing from 26th February 2003 and March 2003. SBI E2-Capital and Ebizal are subsidiaries of Softbank Investment International (Strategic) Limited (“SIIS”), a strategic investor of the Company.

	(Unaudited)	(Unaudited)
	Six months ended	Six months ended
	30th June	30th June
	2003	2002
	HK\$’000	HK\$’000
SBI E2-Capital	34	—
Ebizal	72	—
	<u> </u>	<u> </u>

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

Apart from the above, as further described in the Prospectus, Mr. Li Shui provided a personal guarantee to Artfolio Corporation and SIIS, strategic investors of the Company, that the audited combined profit after tax but before extraordinary items of LFJ and Champion Force Industrial Limited (the “Relevant Subsidiaries”) for the 12 months ended 31st March 2003 would not be less than HK\$10 million (the “Personal Guarantee”). Any shortfall between the guaranteed amount and the actual amount would be fully reimbursed by Mr. Li Shui to the Group personally within the first calendar week of June 2003.

An announcement had been made on 30th May 2003 that the audited combined profit after tax but before extraordinary items of the Relevant Subsidiaries for the 12 months ended 31st March 2003 was HK\$11.2 million, which exceeded the minimum requirement under the Personal Guarantee and Mr. Li’s obligation under the Personal Guarantee was fully discharged.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

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

From April to June 2003, Hong Kong was under a tough time in dealing with the disease SARS and was further dampened by the aftermath of the Iraq war in various kinds of economic activities.

Tourism was one of the most seriously affected industries during that period. Irrespective of a blooming growth in number of tourists at the beginning of 2003, a sharp shrinkage in the number of tourists was experienced when the World Health Organization (“WHO”) issued the travel advisory against non-essential travel to Hong Kong on 2nd April 2003. In this regard, the Group had issued a profit warning announcement pursuant to paragraph 17.10 of the GEM Listing Rules and published on the GEM website on 25th April 2003 that the results of the Group for the second quarter as well as the interim report for the year ending 31st December 2003 may be significantly affected by the outbreak of SARS and the Company’s shareholders as well as the public investors should exercise caution when dealing in the Company’s shares.

Turnover

Comparing with the same periods in last year, turnover for the 3 months and 6 months ended 30th June 2003 dropped by approximately 96% and 54% to HK\$473,000 and HK\$9,806,000 (3 months and 6 months ended 30th June 2002: HK\$13,245,000 and HK\$21,458,000) respectively due to the adverse impact on tourism as brought by SARS.

Gross (Loss)/Profit

Because of fixed production workshop expenses, the sluggish turnover in the second quarter of 2003 led to a gross loss of HK\$149,000 for the 3 months ended 30th June 2003 (3 months ended 30th June 2002: gross profit of HK\$10,385,000).

Overall gross profit for the 6 months ended 30th June 2003 was HK\$6,566,000 (6 months ended 30th June 2002: HK\$15,462,000) because the turnover in the first quarter of 2003 had not yet deteriorated which alleviated the adverse impact of SARS for the whole period under review.

Net Loss from Ordinary Activities Attributable to Shareholders

After deliberate meditation in balancing the benefit between the employees’ interest and the long-term interest of the Company’s shareholders, the Group managed to make saving in staff costs by 36% for the

3 months ended 30th June 2003 when compared with the same period in last year. However, other general and administrative expenses like rental and utilities expenses were less subject to change, a net loss from ordinary activities attributable shareholders of HK\$2,461,000 was resulted for the 3 months ended 30th June 2003 (2002: profit of HK\$4,757,000).

For the 6 months ended 30th June 2003, general and administrative expenses increased due to the printing cost for the annual/interim reports, higher audit cost and the Stock Exchange annual fee after listing, resulting in a net loss from ordinary activities attributable shareholders of HK\$1,841,000 for the first half of the year (6 months ended 30th June 2002: net profit of HK\$4,485,000).

Business Outlook and Prospect

Following the removal of Hong Kong from the list of SARS infected areas by the WHO on 23rd June 2003, the Hong Kong Tourism Board and the Hong Kong Government have organized a number of activities aimed at stimulating tourism. The Government has budgeted to spend about HK\$1 billion in rebuilding the Hong Kong economy of which \$417 million was allocated to promote tourism and for the organization of celebration events to make Hong Kong a more gorgeous city than ever. Famous singers, art performers, athletes, football and basketball players will visit Hong Kong in these several months and fill Hong Kong with international attractions.

Signs of tourism recovery were seen recently. However, Japanese tourists visiting Hong Kong has not restored to the pre-SARS level yet. Although the Group's turnover in July 2003 showed signs of gradual recovery, it is still early to comment on the pace of recovery in the third quarter of 2003. Nonetheless, with the devoted efforts from the Hong Kong Government in tourism, the Group has confidence that turnover in the 4th quarter of 2003 will be significantly improved than those in the 2nd and the 3rd quarter of 2003.

In addition to the above, Hong Kong Government signed the Close Economic Partnership Arrangement ("CEPA") with the Mainland China Government on 29th June 2003 which covers three broad areas of preferential terms to Hong Kong enterprises for trading with China, namely, (i) trade in goods (ii) trade in services and (iii) trade and investment facilitation.

CEPA would greatly enhance economic co-operation and integration between the Mainland China and Hong Kong. It would also open favorable access opportunities for Hong Kong products and services in the Mainland China Market. On trade in goods, Mainland Government has agreed to apply zero import tariff from 1st January 2004 for exports from Hong Kong meeting the CEPA rules of origin requirements in some 270 Mainland product codes.

Jewellery products that are made of precious metal and stones are presently subject to import tariff of 26.7% to 35% in China. This entry barrier will sooner be removed next year for those Hong Kong merchants who can meet the CEPA rules of origin requirements. This will be a very good opportunity which copes with the Group's expansion plan for distribution of jewellery products in China as set out in the business objectives in the Prospectus.

Furthermore, the recent proposal for building the Hong Kong-Zhuhai-Macau Bridge connecting Hong Kong, Zhu Hai and Macau, though the effect may not be seen in the short term, will definitely strengthen Hong Kong's network to the neighboring cities and increase of number of tourists taking Hong Kong as a gateway for travel to the Mainland China.

The Board believes the bleak conditions in the last couple of months will soon be gone. With the gradual recovery of tourists visiting Hong Kong, the whole-hearted effort by the Government and coming-up attractions available to the tourists, Hong Kong is definitely an international city for pleasure and the Board, with a deliberate view, is optimistic about the overall results for the whole year and the prospect of the Group.

Business Objectives Review

The following section compares the Group's actual business progress to the information provided in the section headed "Statement of business objective" as set out in the Prospectus:

	Anticipated progress of projects at 30th June 2003	Actual progress of projects at 30th June 2003
Expansion of Geographical Market Coverage to Japan	<p>Conduct market research and feasibility studies on the Japan local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision</p> <p>Estimated cost: HK\$100,000</p>	<p>There were numerous infection cases for SARS inside the flight cabinet and Hong Kong citizens were required to be quarantined for 14 days in Japan after arrival. As a result, the directors could only pay visit to Japan until late June 2003, after Hong Kong was removed from the list of SARS infected areas, to study the Japan local market.</p> <p>The research and feasibility studies was delayed in this regard and expected to be finished in the coming quarter.</p> <p>Actual spending: HK\$23,000</p>
Extension of business into e-commerce	<p>Setting up IT department, investment in computer hardware & software, and maintaining the website</p> <p>Estimated cost: HK\$25,000</p>	<p>Investment in hardware was made in the area of upgrading the internal system network.</p> <p>Actual spending: HK\$20,000</p>

Use of Proceeds

Due to the prolonged duration for the preparation of listing of the Company's shares on the GEM, additional profession fees were incurred and paid from the proceeds for placing the Company's shares. Instead of HK\$17.5 million as set out in the Prospectus, the Company obtained net proceeds of approximately HK\$16.3 million from placing of the Company's shares.

As SARS was an unforeseen natural disaster which seriously affected most of the business in Hong Kong especially tourism, the Group had made temporary usage of the net proceeds from listing in the amount of approximately HK\$2,211,000 for meeting daily operation expenses which could not be funded by the Group's working capital. Such usage of the net proceeds from listing was temporary and expected to be recovered from future operations when the Group's business restores to pre-SARS level.

The Board does not have any present intention in curtailing the spending of the business development plan as set out in the Prospectus and believes such required funding, when due to be used, will be met by cash generated from the Group's future operations and the remaining proceeds from listing.

The tables below set out:

- (i) a detailed cash inflow/(outflow) analysis in the second quarter of 2003
- (ii) a recapitulated analysis for the applications of the net proceeds from listing

Table (i)	HK\$'000	HK\$'000	
Net proceeds from listing on 26th February 2003		16,344	
Net cash inflows generated from operations		5,890	
		<hr/>	
Cash and bank balances as at 31st March 2003		22,234	
Add: cash inflow in the 2nd Quarter of 2003			
Receipts from accounts receivable & other receivables		196	
Less: cash outflow in the 2nd Quarter of 2003			
Cash outflow resulted from operating loss in the 2nd Quarter of 2003	(2,461)		
Add back: non cash item — depreciation	161	(2,300)	<i>Note 1</i>
	<hr/>		
Payment of special dividend for year ending 31st December 2003		(4,697)	
Payment of finance lease creditor		(75)	
Payment of accounts payable & other accruals		(1,017)	
Payment of provisional tax		(193)	
Payment for raw materials acquired for Japan business expansion purpose		(255)	<i>Note 2</i>
Purchase of fixed assets		(57)	<i>Note 3</i>
		<hr/>	
Cash and bank balances as at 30th June 2003		<u>13,835</u>	

Table (ii)	Use of net proceeds from listing		
	Budgeted	Non-budgeted	Total
	HK\$'000	HK\$'000	HK\$'000
Net proceeds from listing on 26th February 2003			16,344
Cash outflow from operating loss not meet by working capital		(2,211)	
Overseas traveling expenses for Japan market study (<i>note 1</i>)	(23)		
Payment for raw materials acquired for Japan business expansion purpose (<i>note 2</i>)	(255)		
Hardware upgrade for internal system network (<i>note 3</i>)	(20)		(2,509)
	<hr/>	<hr/>	<hr/>
Balance of net proceeds from listing as at 30th June 2003			<u>13,835</u>

Notes:

1. included HK\$23,000 overseas traveling incurred for understanding the Japan marketing environment
2. the whole sum was incurred for acquiring raw materials for preparing pilot samples to be used for exploration of Japan local market
3. included HK\$20,000 paid for upgrading hardware in respect of the internal system network

Liquidity and Financial Resources

As at 30th June 2003, the Group had total assets of approximately HK\$46.5 million, including cash and bank balances of approximately HK\$13.8 million. The Group did not have any bank borrowings except for a finance lease payable as disclosed in the condensed consolidated balance sheet the during the periods under review. In this regard, the Group's gearing ratio is zero (net debt to shareholders' fund).

Depending on the pace of recovery in the Group's turnover for the coming months, the Group may continue to finance its operations partly by a temporary usage of the net proceeds from listing. The directors do not have any present intention in curtailing the spending of the business development plan and believe such shortfall can be recovered from cash generated from the Group's future operations and the funding requirement will be met when such spending for the business development falls due.

With net current asset of approximately HK\$41.5 million, the Group remained in a financially liquid position as at 30th June 2003. Taking into consideration the existing financial resources available to the Group, it is anticipated that the Group will have adequate financial resources to meet its ongoing operation and development requirements in the coming year.

CAPITAL STRUCTURE

Since the listing of the Company's shares on the GEM of the Stock Exchange on 26th February 2003, there has been no change in the capital structure of the Company. The share capital of the Company comprises only ordinary shares.

FUNDING AND TREASURY POLICY

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

SIGNIFICANT INVESTMENTS

There was no significant investment during the period.

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 2003, approximately 72% of the Group's income was denominated in Hong Kong dollars or US dollars, with the remaining denominated in Yen. 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, Hong Kong dollars and US dollars from its retail operations in the approximate proportion of 73%, 19% and 8%, respectively for the six months ended 30th June 2003. The Group generally charges a small premium over the market exchange rate if the customer pays in Yen, and converts the Yen receipts to Hong Kong dollars on the next banking day. As such, the Group faces minimal foreign exchange risks.

Employees

As at 30th June 2003, the Group's headcount amounted to 53 employees. The total staff costs (excluding directors' emoluments) amounted to approximately HK\$2,162,000 for the six months ended 30th June 2003. Employees are remunerated in accordance to their performance and working experience.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th June 2003, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (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 the minimum standards of dealing by directors of the listed issuers as referred to in rule 5.40 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of directors	Number of ordinary shares			Total	% of issued share capital
	Personal interests	Family interests	Corporate interests		
Mr Li Shui (<i>Note</i>)	—	—	51,456,000	51,456,000	40.2%
Mr Lee You (<i>Note</i>)	—	—	51,456,000	51,456,000	40.2%

Note:

The 51,456,000 shares are registered in the name of Best Perfect International Limited (“Best Perfect”) whose issued share capital is held by Mr. Li Shui as to 91.2% and Mr. Lee You as to 8.8%. Both Mr. Li Shui and Mr. Lee You are executive directors of the Company and directors of Best Perfect.

Long positions in underlying shares of the Company

The Company has adopted two share option schemes, namely the Share Option Scheme and the Pre-IPO Share Option Scheme as defined in the Prospectus.

Under the terms of Share Option Scheme adopted by the Company on 5th 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 Share Option Scheme became effective upon the listing of the Company’s shares on GEM on 26th February 2003.

No options had been granted under the Share Option Scheme as at 30th June 2003.

In recognition of 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 GEM, the Company adopted the Pre-IPO Share Option Scheme on 5th February 2003. Pursuant to the terms of the Pre-IPO Share Option Scheme, options to subscribe for 8,000,000 shares of the Company were granted to 5 directors and a shareholder of the Company and 7 employees of the Group on 5th February 2003, at an exercise price of HK\$0.10.

Details of such options granted under the Pre-IPO Share Option Scheme are as follows:

	Date of grant	Exercise price per share	Exercisable period	Outstanding at 26th February 2003 and 30th June 2003	Percentage of the enlarged issued share capital of the Company
Shareholder					
Best Perfect (<i>note 1</i>)	26th February 2003	HK\$0.10	<i>Note 2</i>	4,010,000	3.13
Directors					
Mr. Yoshitaka Kitao	26th February 2003	HK\$0.10	<i>Note 2</i>	1,300,000	1.02
Mr. Yu Kam Kee, Lawrence	26th February 2003	HK\$0.10	<i>Note 2</i>	500,000	0.39
Mr. Ty Siao Kian, George	26th February 2003	HK\$0.10	<i>Note 2</i>	500,000	0.39
Mr. Che King Lun, Frankly	26th February 2003	HK\$0.10	<i>Note 2</i>	400,000	0.31
Mr. Mak Tak Cheong, Edmund	26th February 2003	HK\$0.10	<i>Note 2</i>	200,000	0.16

Notes:

1. *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 and Mr. Lee You shall be deemed to be interested in the options held by Best Perfect in proportion to their respective percentage of equity interest in Best Perfect under the SFO.*
2. (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 12 months after 26th February 2003 (the "First Exercise Period") and (ii) the remainder 50% of the total number of options granted at any time during the period of 1 year after the end of the First Exercise Period. The expiry date of the exercisable period shall be determined and notified by the Board to each grantee and in any event the last day of such period of time shall not be later than the date falling one year after the end of the First Exercise Period.

Save as disclosed above, as at 30th June 2003, none of the directors or chief executive of the Company had interests in any securities of the Company or any of 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 Securities and Futures Ordinance; or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of the listed issuers as referred to in rule 5.40 of the GEM Listing Rules; or

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the directors or chief executive of the Company are aware as at 30th June 2003, the persons or companies (not being a director or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which are required to be kept under section 336 of the SFO were as follows:

Long positions in Shares

Name of shareholders	<i>Notes</i>	Capacity	Nature of interest	Number of ordinary shares	% of issued share capital
Best Perfect	<i>1</i>	Beneficial owner	Corporate	51,456,000	40.20%
Li Shui	<i>1</i>	Beneficial owner	Corporate	51,456,000	40.20%
Li So Kuen	<i>2</i>	Beneficial owner	Other	51,456,000	40.20%
Artfolio Corporation ("Artfolio")	<i>3</i>	Beneficial owner	Corporate	27,955,200	21.84%
Softbank Investment International (Strategic) Limited ("SIIS")	<i>4</i>	Beneficial owner	Corporate	14,028,800	10.96%
Softbank Investment (International) Holdings Limited ("Softbank Holdings")	<i>4</i>	—	Other	14,028,800	10.96%
Softbank Investment Corporation ("Softbank Investment")	<i>4</i>	—	Other	14,028,800	10.96%
Softbank Finance Corporation ("Softbank Finance")	<i>3 & 4</i>	—	Other	41,984,000	32.80%

Notes:

1. Best Perfect is beneficially owned by Mr. Li Shui and Mr. Lee You, directors of the Company, as to 91.2% and 8.8%, respectively. Accordingly, Mr. Li Shui is deemed to be interested in the same block of shares held by Best Perfect under the SFO.
2. Ms. Li So Kuen is deemed to be interested in the 51,456,000 shares in which Mr. Li Shui, her spouse is interested.
3. Artfolio is beneficially owned as to 84.02% by Softbank Finance. Accordingly, Softbank Finance shall be deemed to be interested in the same block of shares held by Artfolio under the SFO.
4. SIIS is beneficially owned as to 37.29% by Softbank Holdings Limited. Accordingly, Softbank Holdings shall be deemed to be interested in the same block of shares held by SIIS under the SFO.

Softbank Holdings is wholly owned by Softbank Investment. Accordingly, Softbank Investment shall be deemed to be interested in the same block of shares held by SIIS under the SFO.

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 SFO, in addition to those shares owned by Artfolio as detailed in note (ii) above.

Long Positions in Underlying Shares

Ms. Li So Kuen is deemed to be interested in 4,010,000 underlying shares of the Company by virtue of the interest of her spouse, Mr Li Shui who beneficially owns 91.2% of the issued shared capital of Best Perfect and who is therefore deemed interested in the options granted to Best Perfect to subscribe for 4,010,000 shares in the Company pursuant to the Pre-IPO Share Option Scheme.

Save as disclosed above, as at 30th June, 2003, no person (not being a director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which are required to be kept under section 336 of the SFO.

PURCHASE, REDEMPTION OF 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 6 months ended 30th June 2003.

COMPETING INTEREST

Saved as those disclosed in the Prospectus, as at 30th June 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 30th June 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 9th September 2002 or which Softbank Finance Corporation, Softbank Investment Corporation and their respective subsidiaries may co-invest with the Group under the agreement dated 5th 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 Share Option Scheme to subscribe for shares of the Company as disclosed in this report.

Pursuant to the agreement dated 10th 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 26th February 2003 to 31st 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 5th February 2003 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the audit committee are to review and provide supervision over the financial reporting process and internal controls of the Group. The audit committee comprises two independent non-executive directors, namely Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly and one executive director, namely, Mr. Li Shui. Mr. Mak Tak Cheong, Edmund is the chairman of the audit committee. The Group's unaudited condensed consolidated interim report for the 6 months ended 30th June 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 26th February 2003.

On behalf of the Board
Li Shui
Executive Chairman

Hong Kong, 13th August 2003