



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 REPORT 2004

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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 for the 3 months and 6 months ended 30th June 2004 were HK\$9,427,000 and HK\$13,785,000 (2003: HK\$473,000 and HK\$9,806,000) respectively which demonstrated a significant improvement of 19 times and 41% as recovered from the same periods of last year for which SARS was out broken in the second quarter of 2003.
- Gross profit for the 3 months and 6 months ended 30th June 2004 were HK\$6,160,000 and HK\$8,709,000 (2003: gross loss of HK\$149,000 and gross profit of HK\$6,566,000) respectively. The gross loss of HK\$149,000 incurred in the second quarter of last year was quite exceptional because turnover was so sluggish in that period that it could not even cover the minimal production overheads.
- Net profit from ordinary activities attributable to shareholders for the 3 months ended 30th June 2004 was of HK\$240,000 (2003: loss of HK\$2,461,000). For the 6 months ended 30th June 2004, the Group sustained a net loss of HK\$1,380,000 (2003: HK\$1,841,000), it was mainly attribute to the fact that the Group's retail sales has not been recovered fully to the pre-SARS level yet.
- The Group maintained sufficient liquid cash of approximately HK\$7.6 million as at 30th June 2004 to meet its ongoing operations and development requirements.
- Earning per share was 0.188 HK cents for the 3 months ended 30th June 2004 and loss per share was 1.078 HK cents for the 6 months ended 30th June 2004.
- The Board does not recommend the payment of an interim dividend for the 6 months ended 30th June 2004.

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 3 months and 6 months ended 30th June 2004, together with the comparative unaudited figures for the corresponding periods in 2003.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Three months ended		Six months ended	
		30th June		30th June	
		2004	2003	2004	2003
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	9,427	473	13,785	9,806
Cost of sales		(3,267)	(622)	(5,076)	(3,240)
Gross profit/(loss)		6,160	(149)	8,709	6,566
Other revenue and gains		1	40	1	49
Selling and distribution costs		(2,879)	(294)	(4,441)	(3,477)
General and administrative expenses		(3,009)	(2,244)	(5,592)	(4,963)
Profit/(loss) from operating activities	4	273	(2,647)	(1,323)	(1,825)
Finance cost	5	(33)	(7)	(57)	(16)
Profit/(loss) before tax		240	(2,654)	(1,380)	(1,841)
Tax	6	—	193	—	—
Net profit/(loss) from ordinary activities attributable to shareholders		240	(2,461)	(1,380)	(1,841)
Dividend — special dividend		0	0	0	(4,697)
Earning/(loss) per share	7				
— Basic, HK cents		0.188	(1.923)	(1.078)	(1.533)
— Diluted, HK cents		0.178	(1.824)	N/A	(1.474)

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th June 2004 HK\$'000	(Audited) 31st December 2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		2,034	1,742
Other asset		332	339
		<u>2,366</u>	<u>2,081</u>
CURRENT ASSETS			
Inventories		29,088	27,424
Accounts receivable	8	1,868	1,480
Prepayments, deposits and other receivables		2,863	2,119
Tax recoverable		6	6
Pledged time deposit		83	84
Cash and bank balances		7,559	11,426
		<u>41,467</u>	<u>42,539</u>
CURRENT LIABILITIES			
Accounts payable	9	1,948	492
Accruals and other payables		1,865	1,818
Trade deposit received		444	819
Interest-bearing bank loan, unsecured		547	1,083
		<u>4,804</u>	<u>4,212</u>
NET CURRENT ASSETS		<u>36,663</u>	<u>38,327</u>
		<u>39,029</u>	<u>40,408</u>
CAPITAL AND RESERVES			
Issued capital	12	12,800	12,800
Reserves	10	26,229	27,608
		<u>39,029</u>	<u>40,408</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30th June 2004 <i>HK\$'000</i>	(Audited) Six months ended 30th June 2003 <i>HK\$'000</i>
Net cash inflow/(outflow) from operating activities	(2,710)	1,070
Net cash inflow/(outflow) from returns on investment and servicing of finance	0	(4,698)
Net cash used in investing activities	(622)	(74)
Net cash inflow/(outflow) from financing activities	<u>(535)</u>	<u>16,313</u>
 NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	 (3,867)	 12,611
Cash and cash equivalents at beginning of period	<u>11,426</u>	<u>1,141</u>
 CASH AND CASH EQUIVALENTS AT END OF PERIOD	 <u><u>7,559</u></u>	 <u><u>13,752</u></u>
 ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
Cash and bank balances	<u><u>7,559</u></u>	<u><u>13,752</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited) Share Capital <i>HK\$'000</i>	(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 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	—	(9,137)	—	—	(9,137)
Special dividend of 3.67 HK 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	3,664	21,177	5,976	43,617
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

Notes:

1. Basis of Presentation

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

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

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 2003.

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	30th June
	2004	2003
	HK\$’000	HK\$’000
Depreciation	330	314
Amortisation of other asset	7	8
	<u> </u>	<u> </u>

5. Finance Cost

Finance cost in current period represented unsecured bank loan interest whereas in the last correspondence period represented interest on finance lease.

6. Tax

No provision for Hong Kong profits tax was made for the six months ended 30th June 2004 (2003: Nil) as the Group had no estimated assessable profit 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 profit from ordinary activities attributable to shareholders for the 3 months ended 30th June 2004 of HK\$240,000 and the unaudited net loss from ordinary activities attributable to shareholders for the 6 months ended 30th June 2004 of HK\$1,380,000 (3 months and 6 months ended 30th June 2003: unaudited net loss of HK\$2,461,000 and HK\$1,841,000 respectively) and the weighted average number of 128,000,000 (3 months and 6 months ended 30th June 2003: weighted average number of 128,000,000 and 120,079,558 deemed to be in issue throughout the periods respectively) shares of the Company.

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

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 the 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 the period.

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

	(Unaudited) 30th June 2004 <i>HK\$'000</i>	(Audited) 31st December 2003 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	352	1,239
Between 31 and 60 days	486	241
Between 61 and 180 days	1,030	—
	<hr/> 1,868 <hr/>	<hr/> 1,480 <hr/>

9. Accounts Payable

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

	(Unaudited) 30th June 2004 <i>HK\$'000</i>	(Audited) 31st December 2003 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	912	156
Between 31 and 60 days	649	299
Between 61 and 180 days	387	37
	<hr/> 1,948 <hr/>	<hr/> 492 <hr/>

10. Movement on Reserves

	(Unaudited) Share Premium HK\$'000	(Unaudited) Contributed Surplus HK\$'000	(Unaudited) Retained Earnings HK\$'000	(Unaudited) Total HK\$'000
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	(9,137)	—	—	(9,137)
Special dividend of 3.67 HK 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	3,664	21,177	5,976	30,817
At 1st January 2004	3,664	21,177	2,768	27,609
Net loss from ordinary activities attributable to shareholders for the period	—	—	(1,380)	(1,380)
At 30th June 2004	3,664	21,177	1,388	26,229

11. Related Party Transactions

In addition to the transactions and balances set out elsewhere in notes to this interim report, 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.

Nature of transactions	(Unaudited) 6 months ended 30th June 2004 HK\$'000	(Unaudited) 6 months ended 30th June 2003 HK\$'000
Sale of goods	966	—

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

- (b) 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 1st March 2003.

SBI E2-Capital and Ebizal are subsidiaries of Softbank Investment International (Strategic) Limited (“SIIS”). On 27th February 2004, SIIS had disposed 8.06% out of its total equity interest of 10.06% in the Company and ceased to be a substantial shareholder of the Company, accordingly, SBI E2-Capital and Ebizal were no longer related parties of the Company on that date too and their services were subsequently terminated on 3rd March 2004 and 31st December 2003 respectively.

	(Unaudited) Six months ended 30th June 2004 HK\$'000	(Unaudited) Six months ended 30th June 2003 HK\$'000
SBI E2-Capital	17	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.

- (c) Mr. Li Shui provided a personal guarantee to Artfolio Corporation and SIIS that the net profit after tax of the Group for the twelve months ended 31st March 2003 would not be less than HK\$10 million, which was satisfactorily fulfilled. The guarantee was discharged upon the receipt of a discharge letter issued by Artfolio Corporation and SIIS on 31st May 2003.

12. Share Capital

	(Unaudited) 30th June 2004 HK\$'000	(Audited) 31st December 2003 HK\$'000
Ordinary Shares		
<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>		
128,000,000 shares of HK\$0.10 each	<u>12,800</u>	<u>12,800</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 6 months ended 30th June 2004.

None of the share options granted to the directors/ex-directors under the Pre-IPO Share Option Scheme have been exercised, cancelled or lapsed during the 6 months ended 30th June 2004.

13. Post-Balance Sheet Event

545,000 share options out of a total of 8 million share options under the Pre-IPO Share Option Scheme entitling the holders to subscriber for shares in the Company at HK\$0.1 each were exercised by the Group's entitled employees and 545,000 shares in the Company were allotted to them on 2nd July 2004.

14. Pledge of Assets

As at 30th June 2004, the Group has pledged its bank deposits of approximately HK\$84,000 (2003: HK\$84,000) to CLP Power Hong Kong Limited as utilities deposit to secure their provision of electricity.

15. Operating Lease Arrangement

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

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

	(Unaudited) 30th June 2004 HK\$'000	(Audited) 31st December 2003 HK\$'000
Within one year	1,715	1,560
In the second to fifth years, inclusive	—	1,715
	<u>1,715</u>	<u>3,275</u>

16. Capital Commitment

The Group did not have any significant capital commitment as at 30th June 2004.

17. Contingent Liability

The Group did not have any significant contingent liabilities as at 30th June 2004.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the 6 months ended 30th June 2003.

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.

Most of the retail sales in Hong Kong are tourism driven. The outbreak of SARS in Hong Kong during the second quarter of last year had led to an unprecedented slump in tourism and also the tourism related retail sales, the Group was operated in the most difficult time in that period.

Although the total number of arrival visitors to Hong Kong has been increasing swiftly since the adoption of Individual Visa Scheme by the Mainland China Government since July 2003, visitors from some European, American and Asia countries are still lagging from full recovery to the pre-SARS level. The pace of recovery is further undermined by the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004.

The following table as extracted from the website of the Hong Kong Tourism Board (“HKTB”) demonstrates the number of arrival visitors from Japan before and after the outbreak of SARS.

Arrival visitors from Japan	2004	2003	2002
First Quarter	220,047	325,431	332,848
Second Quarter	256,814	*47,552	330,972
Half Yearly Total	476,861	372,983	663,820

The arrival visitors from Japan in the upper half year of 2004 have shown an increment of 28% as recovered from the same period of last year for which SARS was out broken, however, it was still short fallen by 28% when compared with the pre-SARS number of 2002.

* *Period during which SARS was out broken in Hong Kong.*

Turnover

Turnover for the 3 months and 6 months ended 30th June 2004 were HK\$9,427,000 and HK\$13,785,000 (2003: HK\$473,000 and HK\$9,806,000) respectively which demonstrated a significant improvement of 19 times and 41% as recovered from the same periods of last year for which SARS was out broken in the second quarter of 2003.

Although the increment in turnover as compared with the same periods of last year is encouraging, the Group's turnover was still short fallen from the pre-SARS level. It was mainly attribute to the fact that tourists' confidence amongst the Japanese for visiting Hong Kong has not yet been fully recovered as a result of the recurrence of bird flu and SARS infection cases in the nearby countries of Hong Kong in the first quarter of 2004.

Gross profit

Gross profit for the 3 months and 6 months ended 30th June 2004 were HK\$6,160,000 and HK\$8,709,000 (2003: gross loss of HK\$149,000 and gross profit of HK\$6,566,000) respectively. The gross loss of HK\$149,000 incurred in the second quarter of last year was quite exceptional because turnover was so sluggish in that period that it could not even cover the minimal production overheads. Other than that the gross profit margins during the periods under review were all within the average gross profit margin range of the Group between 62% — 68%.

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

For the 3 months ended 30th June 2004, the Group achieved a net profit of HK\$240,000 (2003: net of loss of HK\$2,461,000). For the 6 months ended 30th June 2004, the Group sustained a net loss of HK\$1,380,000 (2003: HK\$1,841,000), it was mainly attribute to the fact that the Group's overall sales were still lagging behind from the pre-SARS level and were unable to cover the general and administrative expenses.

BUSINESS OUTLOOK AND PROSPECTS

Wholesale

Hong Kong has been internationally renowned for its stylish and high quality jewellery and is the third largest jewellery exporter in the World. The Group used to have export sales of jewellery products below 5% of the total sales, to widen the sales base, the Group had entered into a supply agreement with HOS on 15th October 2003 and a co-branding shop in enhancing the Group's jewellery branding was opened in Harajuku of Tokyo on 23rd December 2003. During the period under review, export sales made to HOS was about HK\$966,000 and represented approximately 7% of the Group's total sale for the 6 months ended 30th June 2004.

Retail — Japanese tourists

Arrival visitors from Japan to Hong Kong as per HKTB's publications in the second quarter demonstrated a desirable growth of 16.7% over the first quarter of 2004, it was mainly attributed to the high quality of health safety measures as adopted by Hong Kong medical workers in the precaution of highly communicable diseases. Correspondingly, the Group's turnover in the second quarter of 2004 has also doubled that of the first quarter.

Both are positive signs that arrival visitors from Japan are on the recovery track to the pre-SARS level. With zero recurrence of bird flu and SARS infections in Hong Kong as upheld by Hong Kong medical workers since 2004, management is optimistic of the Group's sales growth in the coming quarters.

Retail Sales to Mainland China tourists

Since the adoption of the Individual Visa Scheme ("IVS") by the Mainland China government in July 2003, arrival visitors from China to Hong Kong have shown record-breaking numbers from month to month.

Arrival visitors from China	2004	2003	2002
First Quarter	2,919,108	2,130,761	1,391,575
Second Quarter	2,749,023	1,104,599	1,493,424
Half Yearly Total	<u>5,668,131</u>	<u>3,235,360</u>	<u>2,884,999</u>

As per HKTB publications, the growth in number of arrival visitors from China to Hong Kong in the upper half of 2004 as compared to 2003 was 75% which was a tremendous growth and also the largest amongst all other countries. Even in the period of SARS in 2003, there was also a 12% growth in arrival visitors from China in the first two quarters of 2003 over the same periods in 2002.

As from 1st July 2004 onwards, 9 more Mainland China cities making up a total of 32 Mainland China cities with an approximate of 150 million Mainland China citizens are eligible for easy travel to Hong Kong under the IVS policy.

In this regard, the Group had sought the approval from the Company's shareholders in an extraordinary general meeting ("EGM") held on 8th June 2004 (details were set out in the Company's circular dated 11th May 2004) for which part of the net proceeds raised from listing of the Company's shares in February 2003 be diverted to use in the extension of the Group's retail business to cover tourists from Mainland China.

About HK\$3.3 million will be used in the renovation of the existing shop outlet, recruitment as well as training of new staffs and acquisition of additional inventory for the extended showroom for the Mainland China tourists. The renovation work and the manpower arrangement were completed on 30th June 2004 and the retail sale to Mainland China tourists was commenced in mid-July 2004.

Looking ahead, there are numerous international attractions coming up which include the Tung Chung cable car connecting to the Big Buddha and Disneyland to be opened in 2005, the Olympic Games will be hosted by Beijing in 2008 and the East Asian Games will be hosted by Hong Kong in 2009. Together with the prolific events as organized by the HKTB from month to month, number of tourists from Japan and Mainland China will have certainly have a booming growth in the coming years and this will definitely benefit the Group for tremendous sale potential.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business Objectives for the 6 months ended 31st December 2003	Actual Business Progress
<p>Expansion of geographical coverage:</p> <p><i>Japan</i></p> <ol style="list-style-type: none"> 1. Conduct market research and feasibility studies on the Japanese local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision. 2. Open a sales outlet in Tokyo. 	<p>Although the progress was delayed by the outbreak of SARS from April to June 2003, the Group managed to open a co-branding shop with HOS in Harajuku of Tokyo on 23rd December 2003 and had further secured its export sales to Japan by entering into a supply agreement with HOS on 15th October 2003.</p>

Business Objectives for the 6 months ended 30th June 2004	Actual Business Progress
<p>Expansion of geographical coverage:</p> <p><i>PRC</i></p> <ol style="list-style-type: none"> 1. Conduct market research and feasibility studies on the PRC local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision. 2. Set up a representative office in Beijing for handling the preparation work for the Group's expansion in PRC. 3. Procure inventory of jewellery products to be sold at Beijing Antique Corp's retail outlets as planned under the PRC memorandum of understanding. 4. Commencing from early 2004, seek cooperation with strategic partners to distribute the Group's products in Beijing, the PRC. <p>In Beijing:</p> <ul style="list-style-type: none"> • fixtures & leasehold improvement • marketing, promotion and advertising • inventory and daily working capital purpose 	<p>Without hindsight in the course of preparing to list the Company's share in February 2003 that there would be signing of the Close Economic Partnership Arrangement ("CEPA") between the Mainland China Government and Hong Kong SAR Government on 29th June 2003, the Group can now make use of its competitive advantage that it meets the CEPA rules of origin by trading in goods to China for zero import tariff from 1st January 2004 onwards for some 273 Mainland product codes which include jewellery that was previously subject to import tariff of 26.7% to 35% in China.</p> <p>Pilot batch of jewellery products have been shipped to Beijing Antique to test the market acceptance of the Group's jewellery products in China in the first quarter of 2004 after the CEPA arrangement was being effective.</p> <p>In order to grasp the rapid market changes, the Group has prioritized the expansion of retail sales to cover Mainland China tourists to cope with the opening of 9 more Mainland China cities with 43 million Mainland China citizens that are eligible for easy travel to Hong Kong under the IVS policy from 1st July 2004 onwards.</p> <p>Accordingly, this business objective will be delayed to the 4th quarter of 2004 or the first quarter of 2005 for launching.</p>

Business Objectives for the 6 months ended 31st December 2003 <i>(continued)</i>	Actual Business Progress
<p>Extension of business into e-commerce:</p> <p>1. in order to better serve the Group's customers and enhance its after-sales customer services, the existing website www.laifai.com.hk will be enriched by including members' section products update, news and profile of the Group.</p> <ul style="list-style-type: none"> • setting up IT department, investment in computer hardware and software and maintaining the website. 	<p>Continual improvement of the Group's hardware infrastructure is made as scheduled.</p>
<p>Expansion of business to cover Individual Visa Scheme:</p> <ul style="list-style-type: none"> • fixtures and leasehold improvement • employment and training of new staff • inventory and daily working capital 	<p>Full scale action was taken upon the approval by the Company's shareholders in the EGM held on 8th June 2004, renovation work as well as recruiting and training was completed on 30th June 2003 and retail sales to Mainland China tourists was commenced in mid-July 2004.</p>

Comparison of proposed use of the IPO proceeds with the actual use of the IPO proceeds

	Revised proposed use of the IPO Proceeds as approved in the EGM <i>HK\$'000</i>	IPO Proceeds utilized up to 30th June 2004 <i>HK\$'000</i>
Expansion of geographical coverage:		
<i>Japan</i>		
1. Conduct market research and feasibility studies on the Japanese local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision.	85	85
2. Open a sales outlet in Tokyo		
• marketing, promotion and advertising	298	298
• Inventory and daily working capital purpose	2,217	2,084
<i>PRC</i>		
1. Conduct market research and feasibility studies on the PRC local market to gather information in regard to the locality, population, purchasing power, social and economical factors for management decision.	100	97
2. Set up a representative office in Beijing for handling the preparation work for the Group's expansion in PRC.	150	127
• fixtures and leasehold improvement		
3. Procure inventory of jewellery products to be sold at Beijing Antique Corp's retail outlets as planned under the PRC memorandum of understanding	2,000	843

	Revised proposed use of the IPO Proceeds as approved in the EGM HK\$'000	IPO Proceeds utilized up to 30th June 2004 HK\$'000
<p>4. Commencing from early 2004, seek cooperation with strategic partners to distribute the Group's products in Beijing, the PRC.</p> <p><i>In Beijing:</i></p> <ul style="list-style-type: none"> • fixtures & leasehold improvement 450 • marketing, promotion and advertising 100 • inventory and daily working capital purpose 1,300 <p>Extension of business into e-commerce:</p> <p>1. in order to better serve the Group's customers and enhance its after-sales customer services, the existing website www.laifai.com.hk will be enriched by including members' section products update, news and profile of the Group</p> <ul style="list-style-type: none"> • setting up IT department, investment in computer hardware and software and maintaining the website 100 		<p>—</p> <p>—</p> <p>—</p> <p>95</p>

	Revised proposed use of the IPO Proceeds as approved in the EGM HK\$'000	IPO Proceeds utilized up to 30th June 2004 HK\$'000
2. Develop an e-commerce platform for the promotion and sales of the Group's products on the Internet		
<ul style="list-style-type: none"> • setting up logistic support and delivery channels for Internet sales 	350	—
<ul style="list-style-type: none"> • investment in software and manpower for enhancing internet security, payment gateway, firewall, anti-hacking, etc. 	100	—
<ul style="list-style-type: none"> • investment in hardware for processing internet sales, data management, data security, backup, etc. 	250	—
<ul style="list-style-type: none"> • promotion and advertising of the website www.laifai.com.hk 	100	—
<ul style="list-style-type: none"> • estimated inventory for internet sales 	500	—
Expansion of business to cover Individual Visa Scheme:		
<ul style="list-style-type: none"> • fixtures & leasehold improvement 	800	549
<ul style="list-style-type: none"> • employment and training of new staff 	500	51
<ul style="list-style-type: none"> • inventory and daily working capital 	2,000	799
Additional working capital:		
<ul style="list-style-type: none"> • wages and salaries 	3,553	3,553
<ul style="list-style-type: none"> • miscellaneous 	561	561
<ul style="list-style-type: none"> • daily working capital purpose 	886	—
Total	16,400	9,142

Note: As the Hong Kong Dollars one month time deposit rate was the same as the Hong Kong Dollars saving account interest rate in the past several months, IPO proceeds remain unutilized at 30th June 2004 was all retained in the Group's Hong Kong Dollars saving account.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30th June 2004, the Group had total assets of approximately HK\$43.8 million, including cash and bank balances of approximately HK\$7.6 million. The Group will continue to finance its operations from its sales operations.

With its net current assets of approximately HK\$36.7 million, current ratio of 8.6 and quick ratio of 2.6, the Group remains in a financially liquid position as at 30th June 2004. Taking into consideration of the potential financial resources that may be available to the Group from financial institutions, it is anticipated that the Group will have adequate financial resources to meet its ongoing operations and development requirements in the coming year.

GEARING RATIO

The Group's bank borrowing is an interest-bearing unsecured bank loan of which approximately HK\$547,000 remained outstanding as at 30th June 2004 and the Group does not have any bank overdrafts.

The Group's gearing ratio defined as total interest-bearing debt to shareholders' fund would be 0.01 on 30th June 2004.

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 2004, approximately 77% 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 75%, 24% and 1%, respectively for the six months ended 30th June 2004. 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 2004, the Group's headcount amounted to 62 employees. The total staff costs (excluding directors' emoluments) amounted to approximately HK\$2,801,000 for the six months ended 30th June 2004. Employees are remunerated in accordance to their performance and working experience.

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 2003, 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 6 months ended 30th June 2004.

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

As at 30th June 2004, the 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 5.40 to 5.58 of the GEM Listing Rules relating to securities transactions by directors, were as follows:

Long positions in shares of the Company

Name of director	Number of ordinary shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital as at 30th June 2004
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
Mr. Li Shui (<i>Note</i>)	2,260,000	—	51,456,000	53,716,000	41.97

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

Pursuant to the Pre-IPO Share Option Plan of the Company adopted on 5th February 2003, certain directors, ex-directors, chief executive and employees were granted share options to subscribe for shares of the Company, details of which as at 30th June 2004 were as follows:

	Date of grant	Exercise price per share	Exercisable period	Number of share options outstanding as at 30th June 2004	Percentage of the Company's issued share capital as at 30th June 2004
Directors/ex-director					
Mr. Li Shui (<i>Note 1</i>)	26th February 2003	HK\$0.1	<i>Note 3</i>	4,010,000	3.13
Mr. Yoshitaka Kitao	26th February 2003	HK\$0.1	<i>Note 3</i>	1,300,000	1.02
Mr. Yu Kam Kee, Lawrence	26th February 2003	HK\$0.1	<i>Note 3</i>	500,000	0.39
Mr. Ty Siao Kian, George*	26th February 2003	HK\$0.1	<i>Note 3</i>	500,000	0.39
Mr. Che King Lun, Frankly	26th February 2003	HK\$0.1	<i>Note 3</i>	400,000	0.31
Mr. Mak Tak Cheong, Edmund	26th February 2003	HK\$0.1	<i>Note 3</i>	200,000	0.16

* resigned on 15th March 2004

Employees (*Note 1*)

Mr. Lam King Pui	26th February 2003	HK\$0.1	<i>Note 4</i>	330,000	0.26
Ms. Yip Kwai Lin	26th February 2003	HK\$0.1	<i>Note 4</i>	200,000	0.16
Ms. Kong Yuk Ching	26th February 2003	HK\$0.1	<i>Note 4</i>	200,000	0.16
Ms. Wong Lai Chu	26th February 2003	HK\$0.1	<i>Note 4</i>	80,000	0.06
Ms. Lee Mei Ling	26th February 2003	HK\$0.1	<i>Note 4</i>	100,000	0.08
Mr. Chu Ka Loi	26th February 2003	HK\$0.1	<i>Note 4</i>	100,000	0.08
Ms. Chan Yuk Ping	26th February 2003	HK\$0.1	<i>Note 4</i>	80,000	0.06

Notes:

- Employees are those working under employment contracts regarded as “continuous contracts” under Employment Ordinance (Chapter 57 of the laws of Hong Kong).
- The options were granted to Best Perfect which is beneficially owned by Mr. Li Shui and Mr. Lee You, directors of the Company as to 91.2% and 8.8% respectively. Accordingly, Mr. Li Shui was deemed to be interested in the options to subscribe for shares in the Company held by Best Perfect under the SFO.

3. (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 one year after the end of the First Exercise Period.
4. (i) a maximum of 50% of the total number of options granted at any time during the first year after the date falling 6 months after 26th February 2003 (the “Employees’ First Exercise Period”) and (ii) the remainder 50% of the total number of options granted at any time during the period of one year after the end of the Employees’ First Exercise Period.

Save as disclosed above, as at 30th June 2004, 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 5.40 to 5.58 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 2004, 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	Notes	Capacity and nature of interest shares	Number of ordinary shares held	Percentage of the Company's issued share capital as at 30th June 2004
Best Perfect	1	Directly beneficially owned	51,456,000	40.20
Mr. Li Shui	1	Through a controlled corporation	51,456,000	40.20
		Directly beneficially owned	2,260,000	1.77
Ms. Li So Kuen	2	Through a spouse	53,716,000	41.97
Artfolio Corporation ("Artfolio")	3	Directly beneficially owned	27,955,200	21.84
Softbank Finance Corporation ("SBF")	3	Through a controlled corporation	27,955,200	21.84
		Directly beneficially owned	10,316,800	8.06

Notes:

- 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.
- Ms. Li So Kuen is deemed to be interested in the 52,196,000 shares in which Mr. Li Shui, her spouse who is a director of the Company, is interested.

3. 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.

Long positions in underlying shares of the Company

Pursuant to the Pre-IPO Share Option Plan of the Company adopted on 5th February 2003, share options in respect of 4,010,000 underlying shares of the Company were granted to Best Perfect, details of which were disclosed in the paragraph headed “Directors’ and Chief Executive’s Interests in the Shares and Underlying Shares”. As at 30th June 2004, Best Perfect was beneficially owned as to 91.2% and 8.8% by Mr. Li Shui and Mr. Lee You, respectively.

Further, by virtue of Mr. Li Shui’s interests in Best Perfect and therefore deemed interest in the Company, Ms. Li So Kuen, his spouse, was also taken to be interested in the above-mentioned share options in respect of 4,010,000 underlying shares of the Company granted to Best Perfect under the SFO.

Save as disclosed above, as at 30th June 2004, 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.

SPONSORS' 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 sponsor 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 sponsor 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 2004 and the date of this report respectively.

COMPETING INTEREST

Saved as those disclosed in the Prospectus and this report, as at 30th June 2004, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Company set up an audit committee on 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 interim report for the 3 months and 6 months ended 30th June 2004 have been reviewed by the audit committee, who are of the opinion that such report 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 7 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 5.28 to 5.39 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 6 months ended 30th June 2004.

On behalf of the Board

Li Shui

Executive Chairman

Hong Kong, 13th August 2004

As at the date of this report, 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; 2 independent non-executive directors, being Mr. Mak Tak Cheong, Edmund and Mr. Che King Lun, Frankly.