DESCRIPTION OF BUSINESS

The Group is principally engaged in the manufacture and sale of furnishings and home products and accessories primarily used in the kitchens and bathrooms on an OEM basis. The Group has been engaging in the manufacture and sale of furnishings and home products and accessories since 1999 and mainly uses stainless steel as raw materials for the manufacture of its products. The Directors believe that stainless steel has excellent characteristics such as environmental friendliness, ease of cleansing and repolishing, strong resistance to corrosion, modern appearance and brilliant finish, which make it an ideal material for making furnishings and home products and accessories.

As at the Latest Practicable Date, the Group has a product range of 104 items. The Group has built up established business relationship with IKEA, a global home furnishings retailer and a major customer of the Group, the goods of which are sold in more than 30 countries or regions through over 180 retail stores all over the world. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, sales to IKEA accounted for approximately 84%, 85%, 88% (unaudited) and 92% respectively of the Group's total turnover.

The Group's products can be broadly categorised into pedal bins, cabinet handles, kitchen products, bathroom products, and other products and accessories. The following table sets out the unaudited turnover breakdown of the Group by product category for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005:

	Year ended 31 December				For the six months ended 30 June			
	2003		2004		2004		2005	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000*	%
Pedal bins	16,321	19.4	20,800	13.6	9,675	14.1	11,200	11.8
Cabinet handles	7,771	9.3	6,245	4.1	2,428	3.5	3,853	4.1
Kitchen products	27,676	32.9	73,394	48.2	29,958	43.7	57,150	60.3
Bathroom products	18,932	22.5	32,823	21.5	16,527	24.1	18,797	19.8
Other products and accessories *(Note)*	13,387	15.9	19,197	12.6	10,009	14.6	3,792	4.0
Total	84,087	100.0	152,459	100.0	68,597	100.0	94,792	100.0

Note:

Other products and accessories include heat exchangers, a discontinued product line, of approximately HK$11,848,000, HK$7,027,000, HK$7,027,000 and nil for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 and other furnishings and home products and accessories such as wall leaning clothes rails, clothes hangers, corner shelves, steel rods and parts for home appliances.

The production facilities of the Group are located in Yuyao, Zhejiang Province, the PRC with a total gross floor area of approximately 10,192.39 sq.m.. The Group places a strong emphasis on production enhancement and provides substantial input to its customers' product design and development process. With the support of its product development department which comprises ten staff, the Group responds effectively and efficiently to the requests of its customers. Based on the design sketch and the specifications provided by its customers, the Group is able to produce sample and to make suggestions on product designs in respect of the function and the cost-effectiveness in production. The executive Directors have extensive and well-recognised expertise in industrial design, production and applied technology to ensure the quality standard of its products.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider the following as the key factors contributing to the success of the Group:

- its flexibility in manufacturing a variety of furnishings and home products and accessories according to customers' specifications;
- its established business relationship with IKEA, its major customer;
- its experienced management team which possesses extensive knowledge in industrial engineering; and
- its comprehensive quality control and monitoring procedures throughout the production process.

HISTORY AND DEVELOPMENT

The Group was founded by Mr. Yan Siu Wai and Mr. Leung Kwok Yin, with the establishment of JF Equipment Supplies (Ningbo) on 30 December 1992. Prior to April 2001, the equity interests in JF Equipment Supplies (Ningbo) was held by a company which issued share capital was then owned as to 60% by Mr. Yan Siu Wai and as to 40% by Mr. Leung Kwok Yin. JF Equipment Supplies (Ningbo) was initially set up with a business scope to manufacture and sell parts of air conditioners. However, the company remained inactive until 1999.

With the executive Directors' experience in manufacturing air conditioning equipments which are principally made of metal, the Group decided to leverage on such expertise and explored the business opportunities of producing stainless steel products in view of its market potential. In 1999, the business of JF Equipment Supplies (Ningbo) was extended to include manufacturing of household metal products. At the same time, Mr. Bao Jisheng and his son, Mr. Bao Xiangqian, were invited to join the Group to manage the Group's business and to explore new business opportunities. The Group commenced its business relationship with IKEA in December 1999 when the Group received first order to manufacture stainless steel pedal bins for IKEA. Since then, the Group became principally engaged in manufacture and sale of furnishings and home products and accessories.

In 2000, other than pedal bins, the Group launched different kitchen products and accessories to the market, such as knife racks, spice racks, cutlery stands, kitchen roll holders, dish drainers and cabinet door panels.

In 2001, the Group launched another new product, namely cabinet handles. In addition, the Group started to manufacture heat exchangers used in the air conditioners. The raw materials adopted in the manufacture of heat exchangers mainly include copper tube, aluminum foil and steel. The main production processes in the manufacture of heat exchangers involve pressing, de-coiling, cutting and bonding, in which pressing machines and expanser machines are employed. Prior to the disposal of the Heat Exchanger Business, certain machinery such as pressing machines were shared in the manufacture of heat exchangers and other products of the Group. Customers of the Group's heat exchangers were the related parties of the Group, namely Yuyao Jiefeng Air-Con, 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) and 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-conditioning Co. Ltd.). The transactions with these related parties were conducted on normal commercial terms and on arm's length basis.

On 23 January 2001, in order to reorganise the businesses held by Mr. Yan Siu Wai and Mr. Leung Kwok Yin, a shareholding transfer agreement was entered into for transferring all of the equity interests in JF Equipment Supplies (Ningbo) beneficially owned by Mr. Yan Siu Wai and Mr. Leung Kwok Yin from a company which issued share capital was owned as to 60% by Mr. Yan Siu Wai and as to 40% by Mr. Leung Kwok Yin to Better Asia under the direction of Mr. Yan Siu Wai and Mr. Leung Kwok Yin, with no changes of beneficial ownership of the equity interests in JF Equipment Supplies (Ningbo).

In 2002, the Group expanded its product range with the introduction of bathroom products and accessories, such as soap holders, toilet roll stands, towel rails, glass shelves, toilet roll holders, knobs, knob hangers, hooks and mirrors. In 2003, the Group further introduced new products including trolleys, mounting strips and wall shelves.

On 8 July 2003, JF Metal was established as a Sino-foreign equity joint venture in the PRC with a registered capital of US$140,000, of which as to US$77,000 was contributed by Better Asia and as to US$63,000 was contributed by Mr. Bao Jisheng. It was established with a business scope of manufacturing stainless steel rods. Since its establishment in July 2003 up to January 2005, JF Metal was in preparation for its formal operation, such as acquiring, installing and testing of necessary equipments and completing trial production of its proposed products. In July 2003, in order to cope with the increasing demand of the Group's products, the Group commenced to build a new production plant to expand its production capacity.

In order to focus on the Group's business, the Group ceased to manufacture heat exchangers and disposed of the Heat Exchanger Business in July 2004.

Throughout the years, the Group has continued to expand its range of furnishings and home products and accessories with the introduction of kitchen products and bathroom products in 2000 and 2002 respectively. The Group has expanded its product range rapidly from 18 items in 2000 to 104 items as at the Latest Practicable Date. Details of the products of the Group are set out in the sub-section headed "Products" under this section of this prospectus.

To align with its business focus, on 23 June 2004, 捷豐冷凍器材(寧波)有限公司 (JF Equipment Supplies (Ningbo)) changed its name to 寧波捷豐家居用品有限公司 (JF Ningbo).

On 25 September 2004, Better Asia and Mr. Bao Jisheng entered into two transfer agreements respectively with Keylink pursuant to which Keylink acquired the entire equity interests in JF Metal for an aggregate cash consideration of RMB1,158,831 (approximately HK$1,093,237), which was determined with reference to the net asset value of JF Metal as at 8 September 2004. Keylink acquired the 55% equity interests of JF Metal held by Better Asia in consideration of RMB637,357 (approximately HK$601,280) and the 45% equity interests of JF Metal held by Mr. Bao Jisheng in consideration of RMB521,474 (approximately HK$491,957). On 11 October 2004, the Administrative Committee of Zhejiang Province Yuyao Economic Development Zone (浙江省餘姚經濟開發區管理委員會) approved such acquisition. On 14 October 2004, JF Metal obtained the certificate of approval for establishment of enterprises with foreign investment (外商投資企業批准証書). JF Metal was then transformed from a Sino-foreign equity joint venture into a wholly foreign-owned enterprise. In addition, JF Metal has expanded its business scope to the manufacturing and processing of stainless steel rods and other accessories. As confirmed by the Company's PRC legal advisers, the Group has obtained all necessary approvals and completed all requisite registrations and filings with the relevant PRC government authorities in relation to such transfers, change of legal status to wholly foreign-owned enterprise and expansion of business scope.

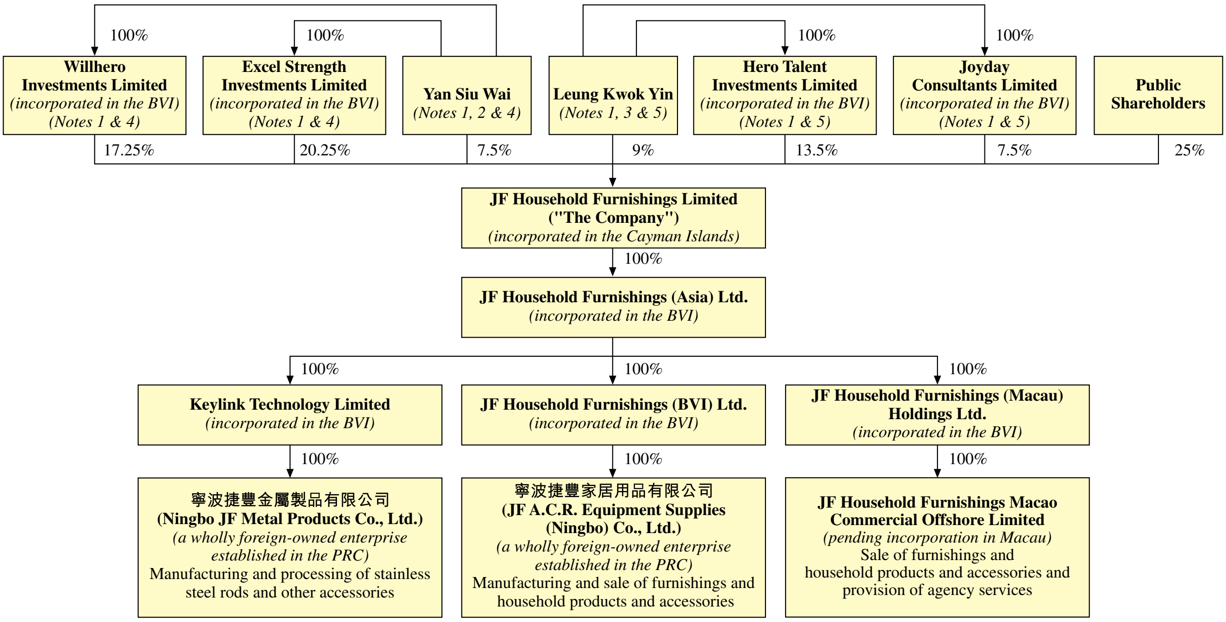
On 3 December 2004, Better Asia and JF BVI entered into a transfer agreement pursuant to which JF BVI acquired all the equity interests of JF Ningbo from Better Asia, in consideration of the issue and allotment of 60 shares and 40 shares in JF BVI, credited as fully paid at par to Mr. Yan Siu Wai and Mr. Leung Kwok Yin respectively. On 15 December 2004, the Administrative Committee of Zhejiang Province Yuyao Economic Development Zone (浙江省餘姚經濟開發區管理委員會) approved such acquisition. On 31 December 2004, JF Ningbo obtained the revised certificate of approval for establishment of enterprises with foreign investment (外商投資企業批准証書). In addition, JF Ningbo has expanded its business scope to manufacture furnishings and home products and accessories made of stainless steel and other materials. As confirmed by the Company's PRC legal advisers, the Group has obtained all necessary approvals and completed all requisite registrations and filings with the relevant PRC government authorities in relation to such transfers and expansion of business scope.

With the acquisition of necessary equipments and completion of trial production, JF Metal commenced its formal operation to process and manufacture stainless steel rods and accessories in January 2005.

In preparation for the listing of the Shares on GEM, the Company was incorporated in Cayman Islands and underwent a group reorganisation to rationalise the Group's structure. In connection with such reorganisation, JF Asia (i) acquired all the issued shares in Keylink from Mr. Yan Siu Wai and Mr. Leung Kwok Yin in consideration of the issue and allotment of 60 shares and 40 shares in JF Asia, credited as fully paid at par to Mr. Yan Siu Wai and Mr. Leung Kwok Yin respectively; (ii) acquired all the issued shares in JF BVI from Mr. Yan Siu Wai and Mr. Leung Kwok Yin in consideration of the issue and allotment of 60 shares and 40 shares in JF Asia, credited as fully paid at par to Mr. Yan Siu Wai and Mr. Leung Kwok Yin respectively; (iii) acquired all the issued shares in JF Macau Holdings from Mr. Yan Siu Wai and Mr. Leung Kwok Yin in consideration of the issue and allotment of 60 shares and 40 shares in JF Asia, credited as fully paid at par to Mr. Yan Siu Wai and Mr. Leung Kwok Yin respectively; and (iv) the shareholders of JF Asia, i.e. Mr. Yan Siu Wai and Mr. Leung Kwok Yin, transferred all of their shares in JF Asia to the Company in return for the allotment and issue of an aggregate of 1,000,000 consideration shares in the Company, credited as fully paid and allotted as to 270,000 Shares to Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and as to 120,000 Shares to Mr. Leung Kwok Yin and credited as fully paid an aggregate of 1,000,000 nil-paid Shares issued as to 270,000 Shares to Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and as to 120,000 Shares to Mr. Leung Kwok Yin on its incorporation. Details of the Reorganisation are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus.

GROUP STRUCTURE

Set out below is the shareholding structure of the Company and the respective interests of each of the Initial Management Shareholders and other shareholders of the Company, immediately after completion of the Placing and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised at all):



Notes:

1. Each of Excel Strength, Willhero, Hero Talent, Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Joyday, being an Initial Management Shareholder of the Company, has undertaken with the Stock Exchange, the Company, the Sponsor and the Underwriters that:

    (a) it/he will place the Relevant Securities with an escrow agent acceptable to the Stock Exchange during the Lock-up Period;

    (b) during the Lock-up Period, it/he will not, save as provided in Rule 13.18 of the GEM Listing Rules (i), dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of its/his direct or indirect interest in the Relevant Securities; or (ii) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interests; and

    (c) during the Lock-up Period, it/he will (i) when it/he pledges or charges any interest in the Relevant Securities, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters in writing of such pledge or charge together with the number of such securities so pledged or charged and other details set out in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) when it/he becomes aware that the Relevant Securities pledged or charged by it/him have been disposed of or are intended to be disposed of, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters of the number of Relevant Securities affected.

2. Mr. Yan Siu Wai, being an Initial Management Shareholder, has undertaken with the Stock Exchange, the Company, the Sponsor and the Underwriters that:

   (a) during the Lock-up Period, he will not, save as provided in Rule 13.18 of the GEM Listing Rules (i), dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of his respective direct or indirect interest in the shares in Excel Strength and Willhero; or (ii) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interests; and

   (b) during the Lock-up Period, he will (i) when he pledges or charges any respective interest in the shares in Excel Strength and Willhero, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters in writing of such pledge or charge together with the number of such shares so pledged or charged and other details set out in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) when he becomes aware that the respective shares in Excel Strength and Willhero pledged or charged by him have been disposed of or are intended to be disposed of, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters of the number of shares affected.

3. Mr. Leung Kwok Yin, being an Initial Management Shareholder, has undertaken with the Stock Exchange, the Company, the Sponsor and the Underwriters that:

   (a) during the Lock-up Period, he will not, save as provided in Rule 13.18 of the GEM Listing Rules (i), dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (nor enter into any agreement to dispose of) any of his respective direct or indirect interest in the shares in Hero Talent and Joyday; or (ii) otherwise create (nor enter into any agreement to create) nor permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interests; and

   (b) during the Lock-up Period, he shall (i) when he pledges or charges any respective interest in the shares in Hero Talent and Joyday, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters in writing of such pledge or charge together with the number of such shares so pledged or charged and other details set out in Rule 17.43(1) to (4) of the GEM Listing Rules; and (ii) when he becomes aware that the respective shares in Hero Talent and Joyday pledged or charged by him have been disposed of or are intended to be disposed of, immediately inform the Stock Exchange, the Company, the Sponsor and the Underwriters of the number of shares affected.

4. Mr. Yan Siu Wai, the beneficial owner of each of Excel Strength and Willhero, first acquired the shareholding interest in the Group through a company which issued share capital was owned as to 60% by Mr. Yan Siu Wai on 30 December 1992, ie. the date of establishment of JF Ningbo being the first member of the Group. The equity interests in JF Ningbo were then transferred to Better Asia on 23 January 2001 which issued share capital is owned as to 60% by Mr. Yan Siu Wai and 40% by Mr. Leung Kwok Yin. As part of the Reorganisation, the equity interests in JF Ningbo held by Better Asia was subsequently transferred to JF BVI which issued share capital was at the material time held as to 60% by Mr. Yan Siu Wai and 40% by Mr. Leung Kwok Yin on 15 December 2004. JF BVI was then acquired by JF Asia in consideration of issue and allotment of shares in JF Asia to Mr. Yan Siu Wai and Mr. Leung Kwok Yin. The entire issued capital of JF Asia was then acquired by the Company in consideration of the issue and allotment of the Shares to Mr. Yan Siu Wai and his nominees (i.e. Excel Strength and Willhero), Mr. Leung Kwok Yin and his nominees (i.e. Hero Talent and Joyday).

5. Mr. Leung Kwok Yin, the beneficial owner of each of Hero Talent and Joyday, first acquired the shareholding interest in the Group through a company which issued share capital was owned as to 40% by Mr. Leung Kwok Yin on 30 December 1992, ie. the date of establishment of JF Ningbo being the first member of the Group. The equity interests in JF Ningbo were then transferred to Better Asia on 23 January 2001 which issued share capital is owned as to 60% by Mr. Yan Siu Wai and 40% by Mr. Leung Kwok Yin. As part of the Reorganisation, the equity interests in JF Ningbo held by Better Asia was subsequently transferred to JF BVI which issued share capital was at the material time held as to 60% by Mr. Yan Siu Wai and 40% by Mr. Leung Kwok Yin on 15 December 2004. JF BVI was then acquired by JF Asia in consideration of issue and allotment of shares in JF Asia to Mr. Yan Siu Wai and Mr. Leung Kwok Yin. The entire issued capital of JF Asia was then acquired by the Company in consideration of the issue and allotment of the Shares to Mr. Yan Siu Wai and his nominees (i.e. Excel Strength and Willhero), Mr. Leung Kwok Yin and his nominees (i.e. Hero Talent and Joyday).

REVENUE MODEL

The Group derives its revenue from the manufacture and sale of furnishings and home products and accessories on an OEM basis which is recognised upon delivery of goods to the customers. The Directors believe that the revenue derived from the manufacture and sale of furnishings and home products and accessories will continue to be the major source of income for the Group in the future.

PRODUCTS

The Group's products can be divided into five categories, namely, pedal bins, cabinet handles, kitchen products, bathroom products and other products and accessories. Some of the Group's products are made of a combination of stainless steel and particle board. The Directors believe that the Group will continue to expand its product range with the use of a combination of different materials. All the Group's products are customised and manufactured according to the customers' specifications.

The Group has built up an established business relationship with IKEA, which is a major customer of the Group and an Independent Third Party. More than 80% of the Group's sales during the Track Record Period were made to IKEA. The Group has expanded its product range from 18 items in 2000 to 104 items in 2005.

Pedal bin

Pedal bin refers to the stainless steel rubbish bin which can be used at home and in office. The pedal bin consists of an external stainless steel cover and a plastic bucket inside. This was the first type of home furnishings product sold by the Group in 1999.

Cabinet handles

The Group commenced production of cabinet handles in 2001. Cabinet handles of different sizes can be fixed to cabinet door panels.

Kitchen products

The Group's first kitchen product was developed and introduced in 2000. In 2000, the kitchen products manufactured by the Group consisted of knife racks, spice racks, cutlery stands, kitchen roll holders, dish drainers and cabinet door panels. A cabinet door panel is a piece of particle board covered by a layer of stainless steel on the outside which can be used as kitchen drawer front or as kitchen tiles. In 2003, the Group has further introduced trolleys, mounting strips and wall shelves as part of the kitchen product range. The Group continued to expand its kitchen product range at the end of 2003 to include wall panel, which is a moveable board used behind the stove to protect the wall from oil stains. In 2004, the Group launched wall panels of different sizes and produced new wall shelves and accessories for ventilation fans.

Bathroom products

The Group introduced its bathroom product range in 2002 which consisted of products including soap holders, hooks, knobs, toilet roll holders, toilet roll stands, knob hangers, glass shelves, towel rails and mirrors.

Other products and accessories

Other products and accessories include wall leaning clothes rails, clothes hangers, corner shelves and wall mounted shelves. These products were introduced in 2003. In 2004, the Group started to develop steel rods and parts for home appliances.

PRODUCT DESIGN AND DEVELOPMENT

The Group has its own product development department comprising ten staff to handle customers' requests. The department utilises its technical knowledge to cater for customer's product concepts and designs. Research & development is also undertaken by the department. It conducts feasibility studies to further improve on the production techniques with an aim to maximize the effectiveness of the production process and to lower production costs.

The product development department is highly involved in the design stage with its customers to optimise product features and functions and to provide substantial input and support to the product design and development process of its customers. Customers of the Group usually provide preliminary design sketches or samples to the Group in the product design and development process and the Group gives comments and suggestions and manufacture samples at the request of the customers. In order to facilitate the product development process, the product designers of IKEA, the Group's major customer, visit the Group's office and workshop to discuss product development with the Group.

The department also performed feasibility studies on improvements of production lines and working environment during the Track Record Period. In particular, during the year of 2004, the product development department had conducted two major feasibility studies:

1. dust purification system, which aimed to improve the working environment for employees; and

2. surface cleaning facilities for stainless steel products.

The two systems have been implemented.

PRODUCTION FACILITIES

The Group's production facilities are located in Yuyao, Zhejiang Province, the PRC with a total gross floor area of approximately 10,192.39 sq.m.. The Group's production facilities consist of 5 buildings, one of which is used as office and staff canteen while others are used for production and storage. The Group has obtained the relevant State-owned Land Use Rights Certificate for industrial use and building ownership certificates for such buildings.

The following table sets out the approximate production capacity of the Group for the two years ended 31 December 2004:

	2003	**2004**
Production *(million pieces)*	4.16	6.00
Production capacity *(million pieces)*	5.37	7.85
Utilisation	77%	76%

The determination of the approximate production capacity is based on assumptions including, among other things, the number of workers, the respective numbers of work shifts of the workers for different production processes (i.e. one shift for certain production processes and two shifts for other production processes), the ability to adjust the number of workers assigned to different production processes and the product mix. Utilisation represents the ratio of the actual production volume to the production capacity during a particular period of time. Factors determining utilisation include the actual product mix and the complexity of the products.

The operation, production and product development departments of the Group conduct reviews on sales orders so as to determine if the existing production capacity is adequate, and formulate necessary action plans if there is a need to increase the production capacity. As the production process of the Group's products is highly labour-intensive, the production capacities and the actual production of the Group can be increased by having additional work-force or increasing the number of shifts of workers from one per day to two or three per day. In light of the growth of the Group's turnover since 2000 and the projection of sales to IKEA and other customers, the Group aims to expand its production capacity by constructing new production plants, purchasing new machines and recruiting additional work-force.

Possible relocation of existing production facilities

According to the Directors, the location of the production facilities ("Subject Premises") may be designated as non-industrial zone ("Rezoned Location") in the near future. Although there is no concrete time frame for enforcing the rezoning policy, according to the transitional arrangement of the People's Government of Yuyao, enterprises operating in the Rezoned Location are encouraged to relocate to a new site which will be offered by the People's Government of Yuyao ("Relocation Site") with relocation compensation ("Relocation Compensation") paid by the People's Government of Yuyao. As at the Latest Practicable Date, the People's Government of Yuyao has not initiated any negotiation or agreement as to the Relocation Site and the Relocation Compensation and no time schedule or plans for such relocation has been provided by the People's Government of Yuyao.

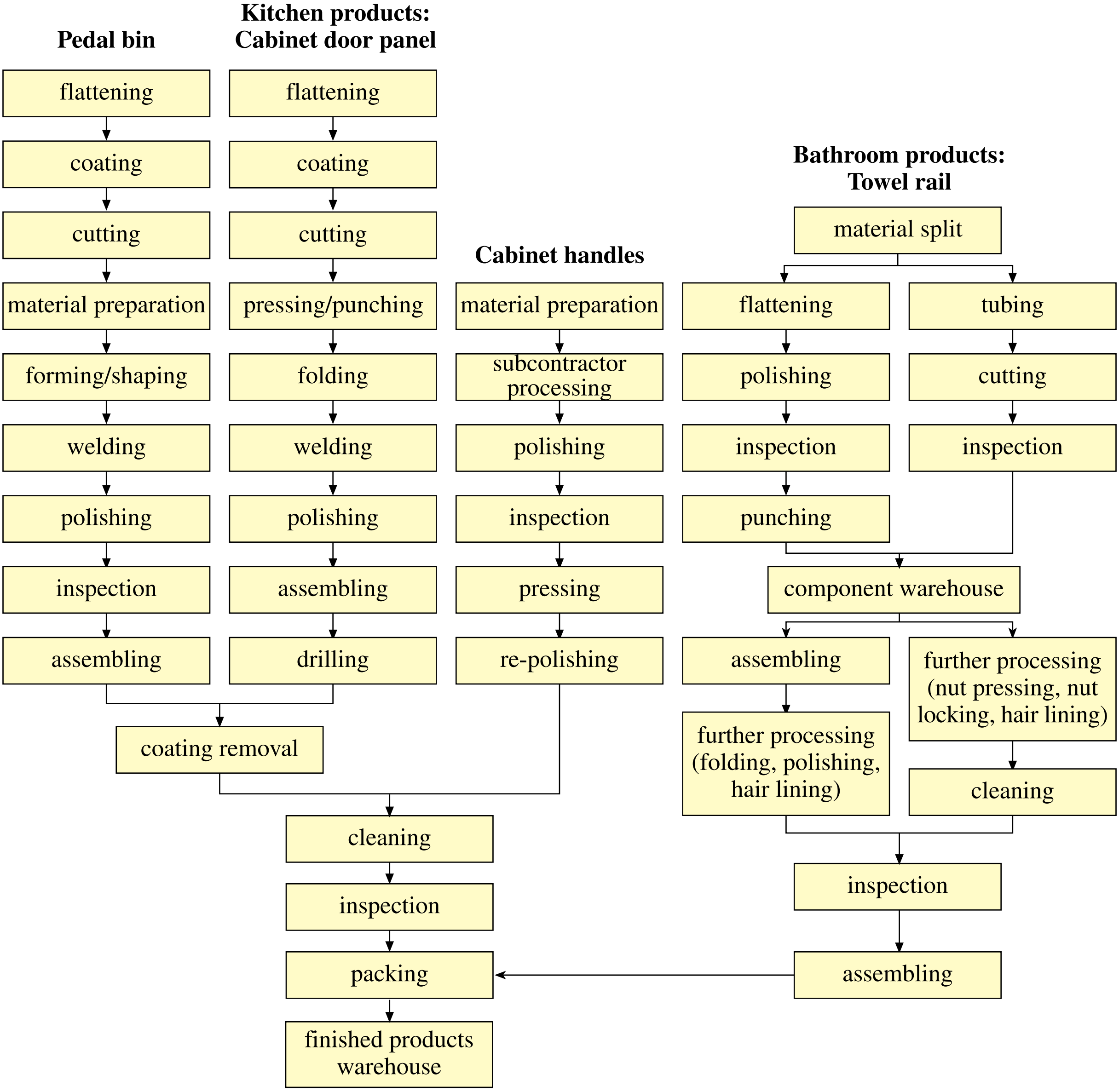
On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) for the acquisition of a piece of land of 44,105 sq.m. ("New Production Site") located at Yaobei Industrial New Zone of the Yuyao City for a term of 50 years commencing from the date of issue of the State-owned Land Use Rights Certificate at a consideration of RMB15,745,485 (approximately HK$14,854,231) of which RMB3,500,000 (approximately HK$3,301,887) had been paid upon the signing of the Transfer Agreement by internal resources of the Group and the remaining balance of RMB12,245,485 (approximately HK$11,552,344) will be payable by the Group within 6 months from the date of the Transfer Agreement. The Directors had confirmed that the remaining balance will be partly settled by internal resources of the Group or bank financing or both and partly by the net proceeds of the Placing. For details, please refer to the section headed "Future Plans and Business Objectives" of this Prospectus.

The New Production Site is identified and acquired on one hand for relocation purpose and on the other hand to facilitate the expansion of production plant of the Group notwithstanding that there is no time frame for relocation.

The Directors had confirmed that not until the new production plants and facilities at the New Production Site are fully constructed and are available for immediate utilization, the production in the existing production plant will not cease for relocation purpose. Hence, the Directors expect that no material interruptions to production will be caused by the relocation as the Group plans to move the production facilities to the New Production Site in several stages gradually and will prepare for concurrent operation of the existing and the new production plant at the New Production Site during the transitional period by installing most of the new production facilities at the New Production Site once the new site is ready for relocation. The Directors believe that such measures will effectively secure the proper operation of the production during the relocation period. Save and except for the additional costs of land use rights which may be incurred by the Group if land use rights for larger size of new land is acquired by the Group, the Directors expect that the substantial costs and expenses associated with the relocation include the construction costs of the new production plants at the New Production Site and the moving costs of the machinery. The Directors believe that substantial part of the relocation costs will be covered by the compensation to be offered by the People's Government of Yuyao. The preliminary estimation of the relocation costs (excluding costs of land use rights and construction costs) is expected to be approximately HK$68,000.

PRODUCTION PROCESS

Set out below is the production process of some major products of the Group:



A description on some of the major processes mentioned above is set out as follows:

- Flattening — uncoil the metal sheet and bring it to a flat position by rolling process, followed by cutting into a rectangular sheet for subsequent process

- Coating — put a self adhesive plastic laminate onto the metal sheet

- Cutting — cut the metal sheet into shapes and dimensions shown on designs

- Forming/shaping — form the metal sheet into a cylindrical shape by rolling machine
- Welding — weld two pieces of metal sheet edge by edge (arc-welding) or up and down (spot-welding)
- Polishing/re-polishing — polish the surface of the metal sheet by polishing machine
- Inspection — inspect the parts and products manufactured by the previous processes in accordance with designs and specifications
- Assembling — assemble parts together for arc-welding or assemble all parts into a product for inspection prior to packing
- Folding — fold the metal sheet into different shape in accordance with designs
- Coating removal — put the self adhesive plastic laminate off the metal sheet
- Drilling — drill the hole of the metal sheet
- Material preparation — preparing material for next step of production process
- Packing — put all the parts of a product into the packing boxes
- Pressing/punching — cut the metal sheet with tooling in the punching machine for different shapes or dimensions in accordance with designs
- Nut pressing — insert nut(s) into a tube by pressing machine
- Nut locking — seal the tube end by lathe machine to hold the nut(s) inside the tube
- Hair lining — polish the metal surface of the product manually/get hair finish effect on the tube by polishing machine
- Cleaning — clean the dirt and adhesive stains on the metal sheet
- Tubing — make metal tubes in the tube making machine with metal strip coils/cut sections of metal tubes by plate cutter in accordance with designs
- Material split — split the metal sheet into different shape in accordance with designs

The Group outsources part of its production process to several subcontractors who are Independent Third Parties and Yuyao Jiefeng Air-Con, a related party and after listing, a connected person, for processes such as pressing, slitting and tubing of stainless steel strips and rods, manufacturing of certain parts of its products, such as cabinet handles and pedal bin cover and cutting of particle board. The Group supplies all the required stainless steel and other materials to subcontractors for processing. The main reasons for subcontracting certain manufacturing processes include saving substantial capital expenditure on the acquisition of certain large scale and high market valued machineries which only forms insignificant part of production of the Group and supporting the occasional shortfall of production capacities for certain machineries. Following the acquisition of tubing machinery by JF Metal in January 2005, the Group intends to continuously minimize the amount of outsourcing of the tubing of stainless steel strips and rods to third parties. However, since the expenditure on the acquisition of certain machinery will be substantial, the Group will continue to subcontract certain processing works to subcontractors including Yuyao Jiefeng Air-Con. Normally, the processing fee is calculated based on the materials involved, the quantity of materials processed and/or the different level of processes required. For each of the two years ended 31 December 2004 and the six months ended 30 June 2005, the processing fees paid to the subcontractors amounted to approximately HK$3.65 million, HK$4.22 million and HK$2.86 million, approximately HK$0.46 million, HK$0.66 million and HK$0.15 million were paid to Yuyao Jiefeng Air-Con. Yuyao Jiefeng Air-Con is owned as to 45.7% by Better Asia. As such, Yuyao Jiefeng Air-Con will become a connected person (as defined in the GEM Listing Rules) of the Company upon the listing of the Shares on GEM. Please refer to the sub-section headed "Related Parties' Transactions and Connected Transactions" under the section headed "Business" in this prospectus for the details of the transactions between the Group and Yuyao Jiefeng Air-Con.

RAW MATERIALS AND PURCHASES

The raw materials used for the manufacture of the Group's products are mainly steel and particle board.

Steel, especially stainless steel, is a major raw material of the furnishings and home products and accessories manufactured by the Group. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, purchases of stainless steel accounted for approximately 58%, 62%, 65% (unaudited) and 78% respectively of the total purchases of the Group. The Group sources stainless steel from different countries. With an aim to control the cost of production, the Group monitors the market price of stainless steel regularly and analyses the price movements. The Group reviews the prices of its products regularly and when necessary, alters such prices so as to allow better cost control and adjustment to fluctuations in stainless steel price. Although this helps to reduce the risk of price fluctuations of steel to a certain extent, such price fluctuations could have an adverse impact on the cost and gross profit margin of the Group's products.

The average purchase prices of major types of stainless steel utilized by the Group in 2003 and 2004 were as follows:

Types of stainless steel		2003		2004	
			approximately		*approximately*
		RMB/kg	*HK$/kg*	*RMB/kg*	*HK$/kg*
430/BA	0.3m/m	13.85	13.07	14.75	13.91
	0.4	11.53	10.88	13.64	12.87
	0.5	10.45	9.86	13.11	12.36
	0.8	10.71	10.10	12.11	11.42
	1.0	10.27	9.69	11.55	10.90
430/2B	0.6	11.06	10.43	11.39	10.75
	0.7	10.68	10.08	11.15	10.52
	1.0			11.55	10.90
304/2B	0.5	15.5	14.62	21.89	20.65
	0.6	15.69	14.80	16.88	15.92
	0.7	15.73	14.84	17.14	16.17
	1.0	14.08	13.28	15.23	14.37
	1.5	14.58	13.75	18.79	17.73
	2.0	13.25	12.5	18.34	17.30
	3.0	13.81	13.03	17.63	16.63
304Ø9.6		14.10	13.30	20.1	18.96

Apart from stainless steel, the Group uses particle board of various thicknesses which are sourced from both the PRC market and overseas.

The Group does not rely on a single source of supply for any of its raw materials or components. The Directors believe that all the principal raw materials and components used by the Group can be purchased from a number of alternative suppliers at terms comparable to those of the Group's current suppliers.

The procurement department of the Group consists of about 11 staff who are responsible for selecting suppliers and placing orders with suppliers for the purchase of necessary raw materials and components. The procurement department works closely with the Group's product development department and the sales department in order to source the required materials to meet the product specifications set out by the product development department and the customers.

Purchases made by the Group are usually settled by letters of credit with variable terms as agreed with the suppliers. Most of the Group's purchases of components and raw materials are denominated in US dollars and Renminbi for the Track Record Period.

Pursuant to an agreement entered into between JF Ningbo and First Priority Inc. on 6 January 2003 ("Agency Agreement"), First Priority Inc., a company incorporated in the British Virgin Islands which issued share capital is owned as to 50% by Mr. Yan Siu Wai and as to 50% by Mr. Leung Kwok Yin, was appointed for the period from 1 January 2003 to 31 December 2003 to manage the overseas affairs of JF Ningbo, in particular, the sourcing of raw materials from overseas market, the issue of letters of credit for the payment of raw materials and the liaison and coordination of business cooperation with its major customer, i.e. IKEA. In consideration of the provision of such agency services, JF Ningbo agreed to pay First Priority Inc. an agency fee equivalent to 2.5% of the foreign currency actually settled and/or received by First Priority Inc. as agent for JF Ningbo. The Directors had confirmed that the rate of the agency fee was no favorable than that of the similar services provided in the market and the transactions had been conducted on arm's length basis.

For the year ended 31 December 2003, total agency fee of HK$1.74 million was paid to First Priority Inc. for the procurement on the issue of several letters of credit on behalf of the Group.

After the expiration of the term of the Agency Agreement on 31 December 2003, the Directors subsequently resolved to discontinue such agency services for reason that save and except for the issue of letters of credit for JF Ningbo, no other agency services under the Agency Agreement had been actively pursued by First Priority Inc. in 2003. Hence, the Directors were of the view that there is no meaningful basis to continue such formal agency arrangement with the charges of agency fee. The arrangement on issuing letters of credit ceased from May 2004.

For the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, purchases from the top five suppliers represented approximately 47%, 39%, 35% (unaudited) and 45% respectively of the Group's total purchases. During the same period, purchases from the largest supplier accounted for approximately 20%, 12%, 13% (unaudited) and 21% respectively of the Group's purchases. Despite the fact that the Group has not entered into any long term contracts with its suppliers, the Group has established business relationships with its five largest suppliers for approximately one to five years. The normal credit period varies according to the payment terms of different suppliers. For the top five suppliers during the Track Record Period, the payment terms ranged from letter of credit at sight to 90 days credit period. For the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, creditors' turnover days were 44 days, 37 days, 23 days (unaudited) and 39 days respectively.

None of the Directors, their respective associates or any shareholders of the Company whom, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company has any interest in any of the Group's five largest suppliers during the Track Record Period. The Directors consider that the Group has established good business relationship with its suppliers and has not experienced any difficulties in obtaining adequate supply of raw materials or component to meet its production requirements.

INVENTORY CONTROL

As at 31 December 2003 and 31 December 2004, the Group's inventories amounted to HK$19.1 million and HK$28.1 million respectively, comprising raw materials, components, work-in-progress and finished goods. For the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the inventory turnover days of the Group were about 109 days, 83 days, 68 days (unaudited) and 87 days respectively. The decrease in inventory turnover days was mainly attributable to the better inventory control and material planning based on a projection of sales orders which allowed the Group to keep a lower stock level. The Directors consider that keeping such level of inventories is essential in order to maintain a smooth production schedule. Raw materials and finished goods are kept in the Group's warehouses.

In order to accommodate customers' demand promptly and to minimise the risk of slow-moving stocks at the same time, the Group maintains a certain inventory level by adopting the following strategies:

— keeping updates on the prevailing stainless steel market situations, mainly on price and supply;

— purchasing stainless steel based on regular analysis conducted by the Group;

— closely monitoring its inventory level so as to maintain an optimal level of stock after taking into consideration the anticipated demand; and

— closely reviewing the recent sales trend of different products.

The Group usually manufactures with reference to customers' order schedules so as to avoid excess inventory of finished goods. The Group also regularly inspects the inventory to ensure that they are in good condition. All stock movements of raw materials and finished goods are recorded.

There is no material obsolete stock in the Group's inventory due to the characteristic of the stainless steel products.

QUALITY CONTROL

As at the Latest Practicable Date, the Group has a quality control department which comprises ten members. It is primarily responsible for ensuring compliance with the prescribed quality standards for the Group's products. The quality control department monitors the production staff to perform full assembly check on knockdown products (i.e. separate parts and components) as well as random check and block check. In addition, evaluation of products will be done on the product's functionality, measurement and safety.

The Group has adopted quality control and assurance procedures throughout its production process. Incoming raw materials and components are subject to quality check on a random sampling basis. Semi-finished products are subject to inspection at various stages of production to ensure that the Group's products are manufactured in accordance with the standards and specifications required by the Group's customers. As a result, any unusual deviations can be promptly identified, investigated and corrected. In respect of finished products, random samples and block checking from each batch of finished products are conducted before delivery.

Raw materials and components, work-in-progress and finished goods that do not meet the Group's quality standards will be returned to the suppliers or put back to the previous stage of production process for reworking, destruction or recycling.

CUSTOMERS

IKEA

The Group has built up established business relationship with its major customer, IKEA. The Group's operations with IKEA started in 1999 when its first sales agreement with IKEA was signed. Since then, the Group has rapidly expanded its product range including kitchen and bathroom products to meet the sales demand from IKEA. The business relationship between the Group and IKEA has been maintained for more than five years.

During this period, a close communication network and alliance has been established between the Group and IKEA through different channels including site visits by senior management of IKEA, regular meetings with IKEA as well as through IKEA's extranet systems, where order schedules and analysis from IKEA in relation to the Group can be easily assessed and downloaded. In order to allow better manufacturing planning by the Group, IKEA provides an annual order schedule/projection to the Group each year. Such annual order schedule/projection will be updated from time to time for the information of the Group.

Usually, IKEA makes its sales orders four weeks in advance of the actual delivery schedule of goods in the following four weeks. The Group is generally given two weeks to confirm the acceptance of the sales order and to adjust its production schedule according to the production capabilities available. For new products, the Group will normally provide a quotation on its selling price to IKEA based on the samples or draft design pictures provided and the amount of materials required. In order to secure manufacturing orders for a new product, the price offered by the Group must be competitive and is fixed once it has been approved by IKEA. For subsequent orders, IKEA reviews the price of their products with the Group to reflect the price fluctuations of raw materials, mainly stainless steel.

Although the Group does not currently have any long term contracts with IKEA, the Group has proven close and on-going trading record with IKEA since 1999. The Group is also in discussion with IKEA to set a three years' business plan, which is proposed to formulate a general direction for the Group to further strengthen the working relationship with IKEA and to facilitate better manufacturing planning by the Group for its further investment in production capacity to cope with the investment and development plan of IKEA globally.

Currently, the Group's products are sold and delivered to different stores of IKEA in various countries or regions around the world. The Group supplied more than 60% of the total purchase quantity and value of IKEA for certain kitchen and bathroom accessory series in 2004 and even up to

100% for certain items. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, sales to IKEA accounted for approximately 84%, 85%, 88% (unaudited) and 92% respectively of the Group's total turnover and accounted for approximately 98%, 89%, 98% (unaudited) and 92% respectively of the Group's sales of furnishings and home products and accessories.

Notwithstanding the abovementioned established business relationship with IKEA, the Directors are of the view that the adoption of the following measures will effectively minimize the impact of material adverse changes in the business relationship with IKEA:

1. *Establishing the Group's own brand*

   By investing more resources on marketing and establishing sales and distribution network, the Group could establish its own brand name and sell its own line of furnishings and home products and accessories to different retailers in the PRC and in global market.

2. *Metal processing work*

   The Group is equipped with machines that can be generally used in processing different kinds of metal, which are not specifically designed or made for production of IKEA's products. Apart from the production of finished products, the Group can also be engaged in metal processing works to carry out certain production process for other manufacturers.

Other customers

The Group is exploring new market opportunities to expand its customer base in order to reduce the risk of reliance on its major customer. Apart from IKEA, there are many furnishings and home products and accessories retailers and distributors which sell furnishings and home products and accessories. These are considered to be the potential customers of the Group yet to be explored and collaborated. During the Track Record Period, the Group's products were sold to a total of 8 customers with which the Group had maintained business relationships for 1 to 5 years. Among them, only five customers, including IKEA, purchased furnishings and home products and accessories of the Group and one of them is Zhejiang Shuaikang. The aggregate furnishings and home products and accessories sold to Zhejiang Shuaikang for the year ended 31 December 2004 amounted to HK$7,096,122, representing approximately 4.7% of the total turnover of the Group for the same period. The other three customers purchased heat exchangers from the Group during the Track Record Period. For the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the five largest customers of the Group accounted for approximately 99.0% and 97.3%, 97.7% (unaudited) and 99.8% respectively of the Group's total turnover.

None of the Directors, their respective associates or any shareholders of the Company whom, to the knowledge of the Directors, own more than 5% of the issued share capital of the Company has any interest in any of the Group's top five customers during the Track Record Period save and except for the transactions in relation to the sales of heat exchangers to Yuyao Jiefeng Air-Con, 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) and 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-conditioning Co. Ltd.).

PAYMENT TERMS AND CREDIT CONTROL

The Group's sales are principally denominated in US dollars and Renminbi. Settlement is according to specific payment schedules as agreed with the customers, in particular, the settlement terms of IKEA are 30 days by telegraphic transfer after receipt of the Group's sales invoices.

Generally, the payment terms are usually around 30 to 90 days after the date of invoice or the receipt of shipping documents with no deposit required. The customers usually pay by telegraphic transfer or letter of credit.

The Group has not experienced any significant bad and doubtful debts for the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the debtors' turnover days were 53 days, 45 days, 48 days (unaudited) and 54 days respectively. At 31 May 2005, the trade receivables as of 31 December 2004 were fully settled.

COMPETITION

The Group faces competition from other suppliers of furnishings and home products and accessories as the entry barrier to the industry is relatively low. The Group's major competitors include manufacturers in Hong Kong and the PRC as well as from other parts of the world with similar competitive cost advantage. Although the entry barrier to the furnishings and home products and accessories industry is relatively low, the stringent requirements of sizable home furnishing retailers in sourcing suppliers is expected to create barriers of entry for new suppliers. The Directors believe that the Group has established reputation and customer loyalty in the furnishings and home products and accessories market over the years and consider that product quality is one of the key factors determining the competitiveness of the Group. Therefore, the management places much emphasis to ensure that the quality of its products meet with the requirements of its customers, in particular, IKEA.

DISPOSAL OF HEAT EXCHANGER BUSINESS

During the Track Record Period, one of the products manufactured and sold by the Group was the heat exchanger. The Group ceased to manufacture the heat exchanger and completed the disposal of the Heat Exchanger Business in July 2004 to Ningbo Mei Yi Heat Exchanger Co. Ltd. at a consideration of approximately HK$2.5 million.

The Directors decided to dispose of the Heat Exchanger Business in 2004 for the following reasons:

(a) Given the prospects and continuous growth of the Group's business in the manufacture and sale of furnishings and home products and accessories, the Directors believed that it is in the best interest of the Group to reorganise the product lines invested by the ultimate shareholders in the Group and in their private companies engaging in the manufacture of air-conditioners for the purpose of focusing all of its resources on manufacture and sale of furnishings and home products and accessories to achieve higher level of economy of scale; and

(b) The revenue derived from the Heat Exchanger Business was mainly from related parties. To effectively avoid the possible connected and related party transactions after listing, the Directors believed that the Group should discontinue all unnecessary connected transactions and related party transactions in preparation for listing.

The disposal of the Heat Exchanger Business was a cessation of heat exchanger as a product line of the Group and the Heat Exchanger Business should not be regarded as a distinguished business activity departing from the Group's business of manufacture and sale of furnishings and home products and accessories. The manufacture and sale of heat exchanger by the Group during the Track Record Period, in fact, formed part of its business of manufacture and sale of furnishings and home products and accessories having regarded the similar product nature, similar raw materials (i.e. metallic nature) and similar production techniques and processes adopted.

Although the disposal of Heat Exchanger Business was completed on 12 July 2004, the decision for such disposal was, however, made as early as the first quarter of 2004 and the relevant agreement for such disposal was, in fact, entered into by the relevant parties in April 2004. The heat exchangers actually form part of the components of air-conditioners, the major products manufactured by the other established business jointly operated by Mr. Yan Siu Wai and Mr. Leung Kwok Yin. As part of the reorganisation of the business of the ultimate shareholders, the ultimate shareholders decided to carve out the Heat Exchanger Business from the listing group as early as the first quarter of 2004. As Heat Exchanger Business would be transferred to substantially the same beneficial owners, the executive Directors resolved to dispose the remaining products to the major customers of Heat Exchanger Business (which were also mainly the related parties) effectively at cost for the six months ended 30 June 2004.

A heat exchanger is one of the major components of an air-conditioner. The heat exchanger is a component and is not an engine as it does not generate power by itself. Its primary function is to cool down the air from the outer environment by the refrigerant through the heat transferring process. The heat is absorbed by the refrigerant when the air flows through the heat exchanger. One of the raw materials of the heat exchanger is zinc-galvanized steel, a kind of congeneric material to stainless steel which is used as the principal raw material for producing furnishings and home products and accessories of the Group. In fact, both zinc-galvanized steel and stainless steel belong to the category of steel. Other raw materials of the heat exchanger include copper tube and aluminum foil.

The production techniques and production processes adopted by the Group in the manufacturing of the heat exchanger and furnishings and home products and accessories such as cabinet door panel and door knob are substantially the same. The production process and the flow chart of the heat exchanger production process are set out as follows:

1. Flatten, cut, punch and fold the zinc-galvanized steel sheet;

2. Press aluminum foil by numerical control press machine;

3. De-coil and cut the copper tube;

4. Insert manually the formed copper tube into the aluminum foil ready for bonding by the expanser machine;

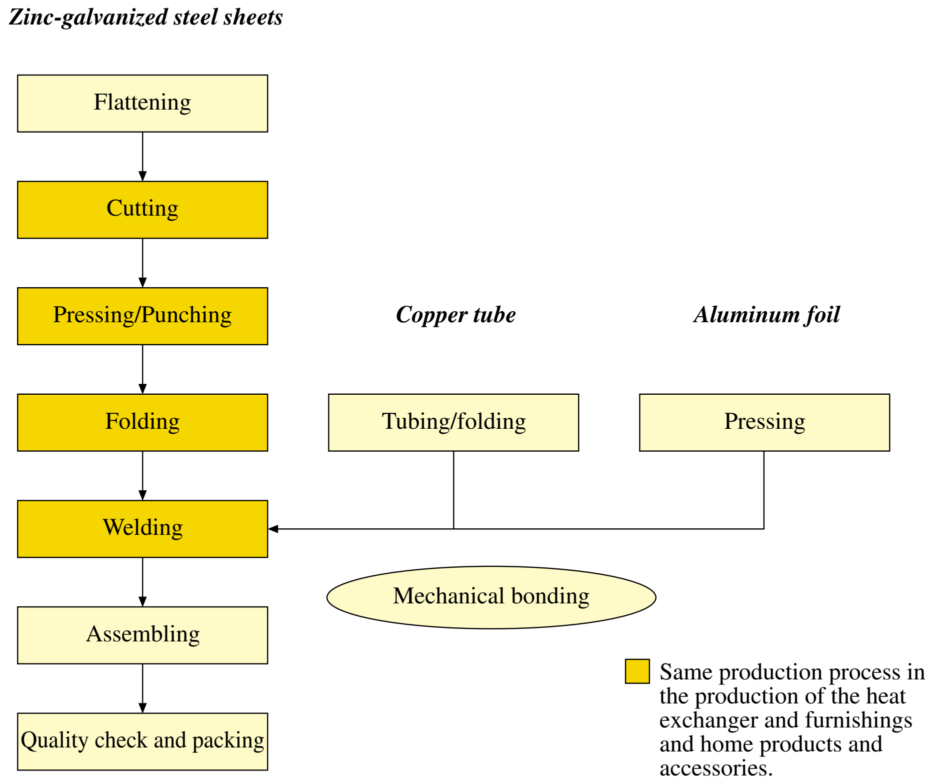
5. Bond the aluminum foil and copper tube using the expanser machine;

6. Weld the copper tube with the folded zinc-galvanized steel manually;

7. Assemble the folded zinc-galvanized steel and copper tube; and

8. Conduct quality check.

The production process flow of heat exchanger



The production of an heat exchanger also requires specialised technology usually adopted for metallic materials such as mechanical bonding and special type of pressing in the production of copper tube and aluminum foil. Such processes require the use of specialised machines such as expanser and numerical control press machines which were operated by two specially trained staff.

The Group is equipped with approximately 50 different types of machines and amongst those, certain commonly used machines, such as pressing machines, welding machines and cutting machines were shared in the manufacture of the heat exchanger. It was noted that the commonly used machines for the production of the heat exchanger and furnishings and home products and accessories were retained by the Group after the disposal of the Heat Exchanger Business in 2004 and only specialized machines for the manufacture of Heat Exchanger were disposed of. Hence, the disposal of the Heat Exchanger Business would not affect the Group's existing production for furnishings and home products and accessories. Further, the disposal of the Heat Exchanger Business in fact freed up the capacity of the previously shared machinery, which are now entirely used for the manufacturing of the Group's furnishings and home products and accessories.

Apart from commonly used machinery and equipment in the production of heat exchanger, the Group also shared certain human resources in the operation and production of the heat exchanger. There were a total of 20 employees of the Group who were involved in the heat exchanger production and operation prior to the disposal of the Heat Exchanger Business. Amongst these 20 employees, 14 employees were substantially involved in the production or operation of both heat exchangers and furnishings and home products and accessories, 4 product designers were involved in designing heat exchangers and 2 employees were specially trained to operate the specialized machines for the heat exchanger production (as mentioned above). Only 6 employees (i.e. 4 products designers and 2 specially trained staff), who were solely involved in the production and operation of the Heat Exchanger Business, are now employed by Ningbo Mei Yi Heat Exchanger Co. Ltd. The 14 shared employees were retained by the Group to focus on the production and operations for the Group's furnishings and home products and accessories. Hence, it should be noted that production technicians with similar skills and knowledge were engaged in the development and the manufacture of the heat exchanger and furnishings and home products and accessories.

COMPLIANCE AND APPROVALS

As confirmed by the PRC legal advisers to the Group, throughout the Track Record Period, the Group has obtained all requisite certificates, approvals and business licences from the relevant regulatory authorities in the PRC for its business operations.

INSURANCE

The Group has effected insurance against losses or damages of the Group's properties. The aggregate amount of insurance coverage of the Group's properties as at the Latest Practicable Date is approximately HK$33 million.

The Group does not maintain product liability insurance to cover any claims in respect of personal injury or the deterioration of products sold by it. However, the Directors confirm that the Group has never experienced any material third party liability claim in relation to its products. The Directors believe that the Group can effectively manage the product liability risk through quality control of its products.

ENVIRONMENTAL PROTECTION

The Directors have confirmed that the Group has complied with the environmental laws and regulations of the PRC. On 22 December, 2004, Yuyao Environmental Protection Bureau issued statements confirming that, as of the date such statements were issued, the Group has been operating its business in full compliance with the application of environmental protection laws, regulations, policies and local rules and had not been given any penalty due to breach of environmental protection laws and regulations. The accuracy of such statement was then re-confirmed by Yuyao Environmental Protection Bureau on 13 September 2005. The PRC legal advisers to the Group has confirmed that they are not aware of any non-compliance with the applicable environmental protection laws, regulations and policies in respect of the operations of the Group.

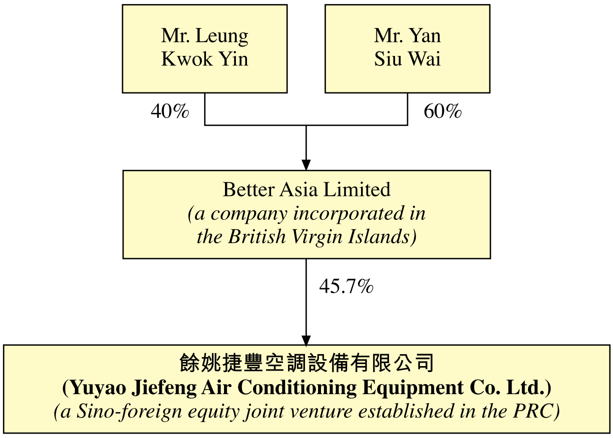
RELATED PARTIES' TRANSACTIONS AND CONNECTED TRANSACTIONS

Relationship between the Company, the related parties and the connected persons

Mr. Yan Siu Wai is a Director and expected to be the controlling shareholder and substantial shareholder of the Company upon Listing while Mr. Leung Kwok Yin is a Director and expected to be a substantial shareholder of the Company upon Listing. Mr. Yan Siu Wai and Mr. Leung Kwok Yin are expected to be interested in 45% and 30% issued share capital of the Company immediately after the completion of the Placing and the Capitalisation Issue respectively (assuming the Offer Size Adjustment Option is not exercised at all). Mr. Bao Jisheng is an executive Director. Each of Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Mr. Bao Jisheng is interested in the shareholdings of certain companies which are classified as connected persons and/or related parties. The relationship between the Company, the connected persons and/or the related parties and the particulars in respect of the discontinued related parties' transactions, continuing related parties' transactions and continuing connected transactions are set out below.

Related parties and connected persons

(1) Yuyao Jiefeng Air-Con is a Sino-foreign equity joint venture established in the PRC which equity interest was owned ultimately as to approximately 43.17% by Mr. Yan Siu Wai and as to approximately 31.99% by Mr. Leung Kwok Yin. The then ultimate shareholdings of Mr. Yan Siu Wai and Mr. Leung Kwok Yin in Yuyao Jiefeng Air-Con were held through their indirect shareholdings in two companies, i.e. a company listed on the Australian Stock Exchange ("Australian Company") and Better Asia. Since the Australian Company disposed its indirect interests in Yuyao Jiefeng Air-Con to an Independent Third Party on 25 August 2005, the existing indirect shareholdings of Mr. Yan Siu Wai and Mr. Leung Kwok Yin in Yuyao Jiefeng Air-Con are as follows:



Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of Yuyao Jiefeng Air-Con. Yuyao Jiefeng Air-Con is therefore a related party of the Group.

(2) A.C.R. Equipment Supplies Limited ("ACR") is a company incorporated in Hong Kong which issued share capital is held as to 30% by Mr. Yan Siu Wai, as to 30% by Madam Mak Man Lee, Manly (who is the spouse of Mr. Yan Siu Wai) and as to 40% by Mr. Leung Kwok Yin. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of ACR. ACR is therefore a related party of the Group.

Pursuant to Rule 1.01 of the GEM Listing Rules, each of Yuyao Jiefeng Air-Con and ACR is an associate of each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin and thus a connected person as defined under Rule 20.11 of the GEM Listing Rules after the listing of the Shares on GEM.

Related parties

(1) 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) ("Panyu Super Link") is a Sino-foreign cooperative joint venture established in the PRC which 90.82% profits is distributable to Super Link Guangzhou Ltd. (捷豐(廣州)有限公司), a company incorporated in the BVI which issued share capital is wholly owned by Super Link Australia Ltd., and is therefore ultimately owned as to 28.05% by Mr. Yan Siu Wai and 24.42% by Mr. Leung Kwok Yin. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of Panyu Super Link. Panyu Super Link is therefore a related party of the Group.

(2) 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-Conditioning Equipment Co. Ltd.) ("Jiefeng Fan") is a Sino-foreign equity joint venture established in the PRC which equity interests is owned as to 40% by Better Asia which is in turn owned as to 60% by Mr. Yan Siu Wai and 40% by Mr. Leung Kwok Yin. Hence, Mr. Yan Siu Wai and Mr. Leung Kwok Yin ultimately own 24% and 16% of the equity interests in Jiefeng Fan respectively. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of Jiefeng Fan. Jiefeng Fan is therefore a related party of the Group.

(3) 浙江帥康電氣股份有限公司 (Zhejiang Shuaikang) is a joint stock limited company incorporated in the PRC which issued share capital is owned as to 4.55% by Mr. Bao Jisheng, an executive Director. Further, Mr. Yan Siu Wai is a director of Zhejiang Shuaikang. Zhejiang Shuaikang is therefore a related party of the Group.

(4) 餘姚港舜現代印務有限公司 (Yuyao Kongshun Modern Printing Services Co. Ltd.) ("Kongshun") is a Sino-foreign equity joint venture established in the PRC which equity interests is owned as to 25% by ACR, which in turn is ultimately owned as to 30% by Mr. Yan Siu Wai, 30% by Madam Mak Man Lee, Manly (Mr. Yan Siu Wai's spouse) and 40% by Mr. Leung Kwok Yin. Hence, Mr. Yan Siu Wai and Mr. Leung Kwok Yin ultimately own 7.5% and 10% of the equity interests in Kongshun respectively. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of Kongshun. Kongshun is therefore a related party of the Group.

(5) 寧波美意熱交換器有限公司 (Ningbo Mei Yi Heat Exchanger Co. Ltd.) ("Ningbo Mei Yi") is a wholly foreign owned enterprise established in the PRC which equity interests is ultimately owned as to approximately 33.33% by Mr. Yan Siu Wai, as to approximately 33.33% by Mr. Leung Kwok Yin. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of Ningbo Mei Yi. Hence, Ningbo Mei Yi is therefore a related party of the Group.

(6) First Priority Inc. is a company incorporated in BVI which is owned as to 50% by Mr. Yan Siu Wai and as to 50% by Mr. Leung Kwok Yin. Each of Mr. Yan Siu Wai and Mr. Leung Kwok Yin is a director of First Priority Inc. First Priority Inc. is therefore a related party of the Group.

Discontinued related parties' transactions

During the Track Record Period, the Group had entered into the following related parties' transactions which had been discontinued before the Latest Practicable Date:

A. *Sales of heat exchangers to Yuyao Jiefeng Air-Con, Panyu Super Link and Jiefeng Fan*

During the Track Record Period, the Group had been engaged in the manufacture and sale of heat exchangers which were mainly sold to related parties, i.e. Yuyao Jiefeng Air-Con, Panyu Super Link and Jiefeng Fan. For the two years ended 31 December 2004, the sales of heat exchangers to Yuyao Jiefeng Air-Con amounted to approximately HK$9,179,659 and HK$5,818,317, representing approximately 10.9% and 3.8% of the total turnover of the Group; the sales of heat exchangers to Panyu Super Link amounted to approximately HK$2,027,125 and HK$1,066,072, representing approximately 2.4% and 0.7% of the total turnover of the Group; and the sales of heat exchangers to Jiefeng Fan amounted to approximately HK$415,010 and HK$99,661, representing 0.5% and 0.07% of the total turnover of the Group. For the reasons of conducting such transactions, please refer to the paragraph headed "Disposal of Heat Exchanger Business" in this section.

The Directors had confirmed that these sales had been discontinued before July 2004, i.e. before the disposal of the product line of the Heat Exchanger Business. Save and except for the sales of heat exchangers during the six months ended 30 June 2004 which selling price were fixed at cost effectively, the Directors are of the view that the selling prices of the heat exchangers were comparable to their market prices and the transactions were conducted on arm's length basis.

B. *Purchases of miscellaneous parts from Yuyao Jiefeng Air-Con*

During the Track Record Period, the Group had purchased miscellaneous parts, such as zinc-galvanized steel sheets and frames from Yuyao Jiefeng Air-Con for the production of heat exchangers. For the two years ended 31 December 2004, the purchases of such miscellaneous parts amounted to approximately HK$371,574 and HK$277,084, representing approximately 0.6% and 0.26% of the total purchases of the Group. Subsequent to the carving out of the product line of heat exchangers in July 2004, the purchases of such miscellaneous parts from Yuyao Jiefeng Air-Con ceased.

The Directors had confirmed that as the purchase price of such miscellaneous parts were determined with reference to their costs and such miscellaneous parts were supplied to the Group with the sole purpose of facilitating the production of heat exchangers by the Group during the Track Record Period, there were no readily comparables available for justifying the fairness of the terms of such purchases (including the purchase price) notwithstanding that the Directors consider that these purchases were conducted on arm's length basis.

C. *Agency Fee paid to First Priority Inc.*

During the Track Record Period, the Group had paid certain agency fees to First Priority Inc. for providing agency services to manage the overseas affairs of JF Equipment Supplies (Ningbo), in particular, procuring the issue of letters of credit on behalf of JF Equipment Supplies (Ningbo) for its overseas sourcing. For the year ended 31 December 2003, the agency fees paid to First Priority Inc. amounted to approximately HK$1,737,397. For additional information in respect of such agency services, please refer to the paragraph headed "Raw Materials and Purchases" in this section.

The Directors had confirmed that the engagement of these agency services had been discontinued following the increase of bank's credit line available to the Group which facilitates the Group to issue letters of credit for its own overseas sourcing at the end of year 2003. The Directors had also confirmed that the agency fee was charged with a view to mainly compensate the use of credit line of other established businesses of Mr. Yan Siu Wai and Mr. Leung Kwok Yin and their efforts in providing liaison services.

Based on the terms of similar services provided to the Group by a PRC trading company in bonded zone before the engagement of First Priority Inc., the Directors are of the view that the basis of charges of such agency fee was no favorable than that of the similar services provided in the market and the transactions had been conducted on arm's length basis.

D. *Purchases of stainless steel from ACR*

During the Track Record Period, the Group had purchased stainless steel through ACR from overseas suppliers. For the two years ended 31 December 2004, the purchases of stainless steel through ACR amounted to approximately HK$3,071,407 and HK$4,588,783 respectively, representing approximately 5.1% and 4.3% of the total purchases of the Group. The Directors had confirmed that the purchases form parts of the overseas sourcing performed by the established business of Mr. Yan Siu Wai and Mr. Leung Kwok Yin referred to in sub-paragraph headed "Agency Fee paid to First Priority Inc." above, pursuant to which letters of credit were issued for such purchases on behalf of JF Ningbo. Although the agency services discontinued at the end of year 2003, the orders made before the end of 2003 were recorded as purchases in the year ended 2004 upon the delivery of orders in 2004.

Save and except for nominal administrative charges paid to ACR, the basis of charges of these purchases were comparable to the consideration payable by the Group to Independent Third Parties for acquiring similar raw materials. Hence, the Directors are of the view that these transactions were conducted on arm's length basis.

E. *Interests payment to Yuyao Jiefeng Air-Con and Jiefeng Fan arising from short term loans*

During the Track Record Period, the Group had borrowed certain short term loans of RMB2,000,000 (approximately HK$1,886,792) from Jiefeng Fan and short term loans of RMB1,000,000 (approximately HK$943,396) from Yuyao Jiefeng Air-Con. The loans were fully repaid by the Group in June 2004 and August 2004. For the year ended 31 December 2004, the interests paid to Jiefeng Fan amounted to approximately HK$49,449 and the interests paid to Yuyao Jiefeng Air-Con amounted to approximately HK$92,506. The short term loans were extended to the

Group for short term financing purpose. Having regarded the interest rate chargeable on commercial loans during the relevant period, the Directors are of the view that the interests paid under such short term loans were comparable to the normal interest rate available from banks and were therefore extended to the Group on arm's length basis.

F. *Disposal of the Heat Exchangers Business*

During the Track Record Period, JF Ningbo has completed the disposal of the Heat Exchanger Business to Ningbo Mei Yi at a consideration of approximately HK$2.5 million. For details of such single transaction, please refer to the paragraph headed "Disposal of Heat Exchanger Business" under this section. The Directors had confirmed that the basis of consideration was determined with reference to the residual value of the operating equipment of Heat Exchanger Business reflected in a PRC audited accounts before the completion of the disposal and the cost of the inventories (being the raw materials) on completion. Hence, the Directors are of the view that the terms of the transactions were determined on normal commercial and arm's length bases.

Continuing related parties' transactions

Apart from the discontinued related parties' transactions set out in the above sub-paragraphs, there are certain related parties' transactions conducted during the Track Record Period that are expected to continue after the listing of the Shares which will not fall into the category of "connected transactions" as defined under the GEM Listing Rules but will, however, be classified as "related parties' transactions" under Hong Kong GAAP. The particulars of such related parties' transactions are as follows:

A. *Sales of parts for home appliances to Zhejiang Shuaikang*

During the Track Record Period, the Group had supplied certain parts for home appliances to Zhejiang Shuaikang. For the year ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the sales of such products to Zhejiang Shuaikang amounted to approximately HK$7,096,122, nil (unaudited) and HK$5,291,750 respectively, representing approximately 4.65%, nil (unaudited) and 5.58% respectively of the total turnover of the Group for the same period. Such products were manufactured and sold by the Group to various customers in the PRC that are home appliances' manufacturers, including Zhejiang Shuaikang, with a view to capture the market of parts for home appliances which are also produced with stainless steel and the manufacture of which also adopts similar production technology and processes, for the purpose of expanding the Group's client base.

As the basis of selling prices of these sales is comparable to the market prices for similar products, the Directors are of the view that the sales were conducted on normal commercial terms and on arm's length basis.

B. *Purchases of printing materials from Kongshun*

During the Track Record Period, the Group had purchased certain printing materials, such as product catalogues from Kongshun. For the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the purchases of such printing materials from Kongshun amounted to approximately HK$44,246, HK$221,270, HK$73,495 (unaudited) and HK$25,608 respectively. The Directors had confirmed that the purchase price paid to Kongshun is comparable to the purchase price charged by other suppliers of printing materials who are Independent Third Parties for similar products. Hence, the Directors are of the view that the terms of the transactions were determined on normal commercial basis and the purchases were conducted on arm's length basis.

The Directors had confirmed and undertaken that the above related parties' transactions, if continue, after listing of the Shares will be conducted on normal commercial terms and on an arm's length basis.

Continuing connected transactions

Pursuant to the GEM Listing Rules, the continuation of any transactions between the connected persons (i.e. each of Yuyao Jiefeng Air-Con and ACR) and the Company or its subsidiaries subsequent to the listing of the Shares on GEM will constitute continuing connected transactions upon Listing, details of which are set out below:

A. *Processing Work*

Pursuant to a processing agreement ("Processing Agreement") (in Chinese) entered into between Yuyao Jiefeng Air-Con and JF Ningbo dated 1 January 2005, certain types of processing work on the products and/or materials of JF Ningbo will be provided by Yuyao Jiefeng Air-Con to JF Ningbo ("Processing Work") for a term commenced from 1 January 2005 and expiring on 31 December 2007 which is terminable by the Company by one month's written notice. The main reason for engaging the Processing Work is to save the substantial capital expenditure on the acquisition of certain large scale and high market valued slitting and pressing machines which only forms insignificant part of production of the Group. Hence, the Group will continue to sub-contract certain processing works to be conducted by the slitting and pressing machines to third party contractors, including Yuyao Jiefeng Air-Con after the listing of the Group. The Directors had confirmed that the basis of charges under the Processing Agreement are comparable to the charges received by Yuyao Jiefeng Air-Con from Independent Third Parties for similar processing works extended by Yuyao Jiefeng Air-Con to such Independent Third Parties. Hence, the Directors and the Sponsor are of the view that the terms, in particular, the Processing Fee are determined on normal commercial terms and on arm's length basis. As Yuyao Jiefeng Air-Con is a connected person (as defined under Rule 20.11 of the GEM Listing Rules) of the Company, the Processing Work provided by Yuyao Jiefeng Air-Con pursuant to the Processing Agreement constitutes a continuing connected transaction under Rule 20.13 of the GEM Listing Rules accordingly.

B. *Licence of office premises*

Pursuant to a licence memorandum ("Licence Memorandum") entered into between ACR and the Company dated 10 March 2005, a licence for the use of a specified area of 375 square feet ("Licensed Property") in a property known as 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong is granted by ACR to the Group for a term of two years commenced from 10 March 2005 which is terminable by the Company by one month's written notice. Pursuant to the Licence Memorandum, the Company will pay to ACR a monthly licence fee of HK$4,500 ("Licence Fees") together with outgoings such as management fees, electricity, air-conditioning fees and other utility charges and sundry expenses apportioned by reference to the actual space occupied by the Group ("Outgoings"). The Licensed Property will be used by the Company as office premises. The independent property valuer, Grant Sherman Appraisal Limited, had confirmed that the Licence Fees were determined with reference to the prevailing market rental at the date of the Licence Memorandum. As ACR is a connected person (as defined under Rule 20.11 of the GEM Listing Rules) of the Company, the licence of the Licenced Property pursuant to the Licence Memorandum constitutes a continuing connected transaction under Rule 20.13 of the GEM Listing Rules accordingly.

Exempted continuing connected transactions

Each of the transactions contemplated under the Processing Agreement and the Licence Memorandum by the Company upon the listing of the Shares will constitute exempted continuing connected transactions of the Company for the following reasons:

A. *Processing Work*

For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, Processing Work provided by Yuyao Jiefeng Air-Con to JF Ningbo amounted to approximately HK$458,416 (approximately RMB485,921), HK$661,368 (approximately RMB701,050), HK$309,572 (approximately RMB328,146) (unaudited) and HK$146,457 (approximately RMB155,244) respectively which does not exceed 2.5% of the consideration ratio, being the only applicable ratio pursuant to the GEM Listing Rules and HK$1,000,000 ("Threshold"). It falls within the de-minimis threshold as stipulated under Rule 20.33(3) of the GEM Listing Rules. Since the Directors expect that the aggregate fees of Processing Work ("Processing Fees") to be paid by the Company to Yuyao Jiefeng Air-Con for each of the three financial years ending 31 December 2007 will not exceed the Threshold, the transactions contemplated under the Processing Agreement will be exempted from the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

B. *Licensing of office premises*

As the total annual licence fee payable by the Group to ACR shall be HK$54,000 (exclusive of the Outgoings) ("Annual Licence Fees") and shall not exceed 0.1% of consideration ratio being the only applicable percentage ratio pursuant to the GEM Listing Rules, it will fall within the de-minimis threshold as stipulated under Rule 20.33(3) of the GEM Listing Rules. Thus, the licensing contemplated under the Licence Memorandum will be exempted from the reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

The Directors (including the independent non-executive Directors) and the Sponsor have confirmed that:

(a) the terms of each of the Processing Agreement and the Licence Memorandum are on normal commercial terms and on arm's length basis and are fair and reasonable to the shareholders of the Company and the Company as a whole; and

(b) the proposed connected transactions contemplated under the Processing Agreement will be conducted in the ordinary and usual course of business of the Company on a regular basis.

The Directors have also confirmed that the Company will comply with the applicable requirements under Chapter 20 of the GEM Listing Rules and reporting requirement and/or announcement requirement, and/or independent shareholders' approval requirement if any of the Processing Fees and/or the Annual Licence Fees payable by the Company to Yuyao Jiefeng Air-Con and ACR respectively during their respective terms in respect of each financial year of the Company exceeds the de-minimis thresholds as set out in Rule 20.33(3) and/or the thresholds as set out in Rule 20.34 of the GEM Listing Rules.