INDEBTEDNESS

Borrowings

At the close of business on 31 July 2005, being the latest practicable date for the purpose of preparing the indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings of approximately HK$15.6 million.

Contingent liability

As at 31 July 2005, the Group did not have any material contingent liabilities.

Security

As at 31 July 2005, the Group's banking facilities of approximately HK$31 million were secured by legal charge on land use rights and certain buildings owned by the Group.

Disclaimer

Save as aforesaid and apart from inter-company liabilities in the Group, neither the Company nor any of its subsidiaries as at the close of business on 31 July 2005, had any debt securities (whether outstanding or authorised but unissued), bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material change in the indebtedness and contingent liabilities of the Group since 31 July 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 July 2005, the Group had net current assets of approximately HK$26.9 million. The Group's current assets consisted of bank and cash balances of approximately HK$17.7 million, inventories of approximately HK$32.8 million, trade receivables of approximately HK$22.9 million, and deposits, prepayments and other receivables of approximately HK$9.7 million. The Group's current liabilities consisted of payables and accruals of approximately HK$39.0 million, amount due to directors of approximately HK$ 0.6 million, bank borrowings of approximately HK$15.6 million and provision for taxation of approximately HK$1.0 million.

Capital commitments

The Group has made capital expenditure commitments for construction of the factory premises and acquisition of plant and machinery of approximately HK$1,401,000 which are contracted but not provided for in the financial statements as at 30 June 2005. These commitments are expected to be paid within one year. The funding of such capital commitments will be sourced from cash flow internally generated from operating activities.

Financial resources

Historically, the Group has relied on bank borrowings and the cash generated from the operations to fund its working capital requirements. All of the bank borrowings are short-term and repayable within one year.

As at 30 June 2005, short-term bank borrowings amounting to approximately HK$15.6 million, which had been used to finance the acquisition of the Group's inventories and property, plant and equipments, and were repayable within one year.

The Directors confirmed that the Group has not historically experienced problems in rollover of old loans or obtaining of new loans. In addition, the Group has historically been profit-making and generated positive cash flow from its operations during the Track Record Period. In particular, net cash generated from operating activities were approximately HK$10.0 million, HK$10.7 million, HK$1.7 million (unaudited) and HK$0.5 million respectively for the two years ended 31 December 2003 and 2004 and the six months ended 30 June 2004 and 2005. The Group is continuously monitoring its cash flow position and should the Group cash flow become tight, the Group will modify its capital expenditure plan accordingly.

A major capital expenditure item in the year 2005 prior to the listing of the Shares on GEM was the construction of a new factory premise in the present land. The cost of the construction of the new factory premise is approximately of HK$1.88 million with initial payment of HK$0.53 million paid in June 2005, and the rest to be paid near the end of the year with the completion of the construction. The Directors consider that the Group's cash balance, being HK$17.7 million at the end of July 2005, is adequate to cover the capital expenditure requirement and the normal operating activities in line with the management's expectation.

The Directors believe that with the continuing cash generated from the Group's operations, coupled with the proceeds from listing of the Shares in GEM, the Group's cash position will be strengthened significantly.

Foreign exchange

The Group earns revenue in US dollars and Renminbi and incurs costs and expenses mainly in Renminbi, Hong Kong dollars, and US dollars. After listing of the Shares on GEM, the Company's accounts will be stated in Hong Kong dollars and payment of dividend will also be in Hong Kong dollars. The Group does not presently intend to use any derivative instruments in the foreign currency market to hedge the risk against fluctuations of foreign currencies. The Directors believe that having regard to the working capital position of the Group, the Group is able to meet its foreign exchange liabilities as they become due.

Capital expenditures

The following table summarises the Group's capital expenditure during the Track Record Period:

	Year ended 31 December		**For the six months ended 30 June**	
	2003	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Acquisition of property, plant and equipment:				
Construction of factory premises	1,552,383	3,242,875	1,879,340	653,744
Plant and machinery	471,179	1,692,927	341,455	1,512,745
Furniture, fixtures and equipment	9,717	151,470	36,624	59,716
Motor vehicles	358,330	441,776	88,302	—

The Group's business has continued to grow at a significant rate with turnover increased by 81.3% in 2004, and consequently demanding an increase of the Group's production capacity to cope with the growth. In June 2004, the Group completed the construction of a new production plant with 6,647.46 sq.m. and increased its investment in new production machinery to HK$1.69 million in 2004.

In April 2005, the Group entered a contract to construct a new production plant with approximately 5,000 sq.m. and expected to be completed by the end of 2005. In addition, for the six months ended 30 June 2005, the Group acquired the plant and machinery amounted to approximately HK$1.5 million of which HK$0.6 million for acquiring the plant and machinery to replace the outsourcing work performed by the subcontractor previously, HK$0.1 million for acquiring the environmental protection equipment and the balance for acquiring the plant and machinery to cope with the increase of the Group's production capacity and growth.

Cash flows

The following table summarises cash flows of the Group for the Track Record Period:

	Year ended 31 December		For the six months ended 30 June	
	2003	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Net cash generated from operating activities	9,982,375	10,733,897	1,706,630	529,558
Net cash (used in)/generated from investing activities	(35,166)	703,899	(1,345,907)	422,570
Net cash used in financing activities	(4,276,026)	(9,636,437)	(3,618,557)	(7,356,320)
Net increase/(decrease) in cash and cash equivalent	5,671,183	1,801,359	(3,257,834)	(6,404,192)
Cash and cash equivalents at beginning of year/period	5,167,194	10,838,377	10,838,377	12,639,736
Cash and cash equivalents at end of year/period	10,838,377	12,639,736	7,580,543	6,235,544

During the Track Record Period, the Group financed its working capital and capital expenditure requirements principally through net cash generated from operating activities and bank borrowings. As at 31 December 2004, the Group had cash and cash equivalents of approximately HK$12.6 million, representing an increase of approximately HK$1.8 million from 31 December 2003.

As at 30 June 2005, the Group had cash and cash equivalents of approximately HK$6.2 million representing a decrease of approximately HK$1.3 million (unaudited) from 30 June 2004.

Operating activities

Net cash generated from operating activities amounted to approximately HK$10.0 million, HK$10.7 million, HK$1.7 million (unaudited) and HK$0.5 million for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 respectively.

The Group's net cash generated from operating activities for each of the two years ended 31 December 2004 was around the same level at around HK$10 million, even though profit before taxation increased by approximately HK$6.5 million for the two years.

The main reason that the net cash generated from operating activities did not increase in line with the increase of profit before taxation was the increase in deposits and other receivables and income tax paid for 2004.

The Group's net cash generated from operating activities for the six months ended 30 June 2005 was approximately HK$0.5 million, representing a decrease of approximately HK$1.2 million (unaudited) from 30 June 2004 mainly due to the payment of income tax increase.

Deposits and other receivables increased by approximately HK$0.7 million and approximately HK$4.2 million for the years ended 31 December 2003 and 2004 respectively. Deposits and others receivables at 31 December 2004 mainly consisted of prepaid expenses of approximately HK$1.6 million for the listing of the Shares on GEM and deposits of approximately HK$7.6 million. Deposits of approximately HK$2.6 million paid to suppliers for acquisition of raw materials was made in anticipation of the increased production volume in the first quarter of 2005, and approximately HK$2.7 million was made in relation to JF Metal which commenced production in January 2005. The balance of the deposit and other receivables of approximately HK$2.3 million mainly represented the deposits paid for acquiring property, plant and equipment, security deposit paid to customs office and tax refund for export.

Deposit and other receivables decreased by approximately HK$0.4 million for the six months ended 30 June 2005 which mainly consisted of prepaid expenses of approximately HK$3.7 million for the listing of the Shares on GEM, approximately HK$3.3 million paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) to express the Group's intention to acquire the land use rights of a parcel of land, approximately HK$2.9 million paid to suppliers for acquisition of raw materials was made in anticipation of the increased production volume in the third quarter of 2005 and the balances represented the deposits paid for acquiring property, plant and equipment and tax refund for export. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with 餘姚市國土資源局姚北工業新區分局 (the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City) for the acquisition of the land use rights of a parcel of land 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 previously paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) transferred as part of the consideration paid upon the signing of the Transfer Agreement.

Income tax paid also increased from HK$0.7 million for the year ended 31 December 2003 to HK$2.8 million for the year ended 31 December 2004. For the six months ended 30 June 2004 and 30 June 2005, the income tax paid increased from approximately HK$1.8 million (unaudited) to approximately HK$2.5 million. The Group's PRC entity JF Ningbo is subject to the PRC enterprise income tax ("EIT") at a rate of 26.4%. It was entitled to an exemption from the EIT for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years.

JF Ningbo started the tax holiday period in 2001, therefore, the reduced income tax rate 13.2% has been applied for the 3rd (2003) to the 5th (2005) year during the Track Record Period.

The increase of approximately HK$1.0 million and approximately HK$0.7 (unaudited) million in income tax expenses for the six months ended 30 June 2004 and 30 June 2005 respectively was mainly due to the increase of net profit before tax. The increase of the income tax paid was in line with the increase of taxation charged for the six months ended 30 June 2005.

Effective tax rate for each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 was 13.2%, 14.0%, 13.1% (unaudited) and 12.8% respectively. The effective tax rate did not exhibit a significant difference from the official reduced tax rate.

Higher effective tax rate was recorded for the year ended 31 December 2004 as the Hong Kong office expenses amounted to approximately HK$2.75 million was not entitled to the PRC income tax deduction. The higher tax amount was partly offset by approximately HK$1.47 million listing expenses deducted as expenses in the PRC for IPO purposes.

For the six months ended 30 June 2005, effective tax rate was lower than that in the corresponding period in 2004 as the Hong Kong office expenses amounted to approximately HK$1.47 million was not entitled to the PRC income tax deduction was offset by, approximately HK$1.67 million listing expenses allowed for deduction in the PRC.

Investing activities

Net cash outflow from investing activities mainly consisted of pledged bank deposit, cash used for acquisition of property, plant and equipment, proceeds from disposal of the property, plant and equipment, and amounts due from/to related companies and directors. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, net cash (used in)/generated from investing activities amounted to approximately HK$(0.03) million, HK$0.70 million, HK$(1.3) million (unaudited) and HK$0.4 million respectively.

Net cash generated from investing activities for the year ended 31 December 2004 increased by HK$0.74 million as compared to the year ended 31 December 2003. The reasons can be summarised as follows:

(i) Less cash was used in the year ended 31 December 2004 as there was a net increase of approximately HK$1.1 million in amount due from/(to) related companies regarding investing activities as the Company cash advance to a related company of approximately HK$4.2 million in 2003 was fully settled in 2004 and the Group acquired the equity interest of JF Metal held by a related company of HK$0.6 million.

(ii) Less cash was used in the year ended 31 December 2004 as there was a net increase of approximately HK$3.2 million in amount due from/(to) a director as cash advance to a director of approximately HK$1.35 million in 2003 was fully settled in 2004 and the Group acquired the equity interest of JF Metal held by the director of approximately HK$0.5 million.

(iii) The Group disposed of the Heat Exchanger production line in July 2004 and received approximately HK$2.7 million as the proceeds for disposal of the property, plant and equipment in respect of the Heat Exchanger production line for the year ended 31 December 2004.

The above three items resulted in less cash used in the year ended 31 December 2004.

On the other hand, approximately HK$6.3 million more cash was used for the year ended 31 December 2004 as cash is used for a pledged bank deposit and the increase in purchase of plant and equipment. Approximately HK$3.1 million was used to set up a pledged bank deposit as at 31 December 2004 as the new loan facilities of US$2,400,000 (approximately HK$18,720,000) obtained during the year required such bank deposit as part of the securities for the new loan facilities.

In addition, approximately HK$3.1 million was used to purchase property, plant and equipment as it increased from approximately HK$2.4 million for the year ended 31 December 2003 to approximately HK$5.5 million for the year ended 31 December 2004. The increase was mainly due to the construction and completion of new factory premises in June 2004.

Net cash generated from investing activities for the six months ended 30 June 2005 increased by approximately HK$1.7 million (unaudited) as compared to the six months ended 30 June 2004, the reasons are shown as follows:

(i) approximately HK$3.1 million pledge bank deposit released as the Group fully settled the bank loan.

(ii) approximately HK$0.6 million for acquiring the equity interest of JF Metal was settled for the six months ended 30 June 2005.

(iii) approximately HK$2.2 million used to purchase property, plant and equipment to cope with the growth of the business and production capacity.

(iv) approximately HK$1.20 million out of approximately HK$1.35 million cash advance to a director in 2003 was settled for the six months ended 30 June 2004.

Financing activities

Net cash used in financing activities for the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005 were approximately HK$4.3 million, HK$9.6 million, HK$3.6 million (unaudited) and HK$7.4 million respectively, contributing approximately HK$5.3 million, HK$3.8 million (unaudited) difference in cash flow for the year ended 31 December 2004 and six months ended 30 June 2004 and 30 June 2005.

The main reason of the difference arising for the year ended 31 December 2003 and 31 December 2004 were the amount due to related companies and the profit distributions. The amount due to related companies increased by approximately HK$3.7 million for the year 2003 while there was a decrease of approximately HK$5.3 million in 2004 which led to an approximately HK$9.0 million difference. The profit distribution paid in 2004 was approximately HK$11.4 million which was a decrease of approximately HK$4.4 million compared to the year ended 31 December 2003.

The main reasons for the difference for the six months ended 30 June 2004 and 30 June 2005 were the Group repaid the bank borrowings amounted to approximately HK$7.3 million and no profit distribution paid for the six months ended 30 June 2005 while the Group repaid HK$1.9 million (unaudited) bank borrowings and HK$1.4 million (unaudited) profit distributions for the six months ended 30 June 2004.

Cash generated from bank borrowings was at similar level for the two years, with approximately HK$7.9 million cash generated in 2003 and approximately HK$7.1 million cash generated in 2004. Bank borrowings increased from approximately HK$15.9 million as at 31 December 2003 to approximately HK$22.9 million as at 31 December 2004. The overall increase in bank borrowings was in line with the expansion of the Group's business and related acquisition of the production plant and equipment.

For the six months ended 30 June 2005, repayment of bank borrowings amounted to approximately HK$7.3 million reduce the outstanding balance to approximately HK$15.6 million. The overall decrease in bank borrowings as the Group's financial position improved and the Group used more trade finance for the six months ended 30 June 2005.

Financial and liquidity position

Set out below is a summary of the Group's key balance sheet items as at 31 December 2003 and 2004 and 30 June 2005 extracted from, and should be read in conjunction with, the Accountants' Report set out in Appendix I to this Prospectus:

	As at 31 December		**As at 30 June**
	2003	**2004**	**2005**
	HK$	*HK$*	*HK$*
Property, plant and equipment	7,450,815	9,587,996	11,357,974
Land use rights	1,088,708	1,062,767	1,048,809
Inventories	19,070,212	28,062,057	36,862,620
Trade receivables	12,285,002	18,897,027	28,100,072
Deposits and other receivables	7,262,901	11,417,575	11,040,446
Due from directors	1,351,838	1,560	—
Due from related companies	4,161,329	2,850	25,252
Pledged bank deposit	—	3,123,264	—
Trade payables	7,707,669	12,561,075	16,450,171
Bank borrowings	15,855,319	22,922,358	15,566,038

Inventories

For the two years ended 31 December 2004, inventories increased from approximately HK$19.1 million to approximately HK$28.1 million, an increase of approximately 47.2%, mainly due to the increase in turnover level and higher cost of raw materials of stainless steel. Inventories amounted to approximately HK$26.8 million were utilised as at 31 March 2005.

For the six months ended 2005, inventories increased from approximately HK$28.1 million at 31 December 2004 to approximately HK$36.9 million at 30 June 2005, an increase of approximately 31.4%, mainly because management secured a higher level of stainless steel inventory when price drop significantly in May and June of 2005.

Management tried to maintain the minimum level of inventories sufficient for the next two to three months based on the expected orders for four to six months. Management monitors the price trend of stainless steel closely to minimise the cost of materials.

Trade receivables

Trade receivables increased from approximately HK$12.3 million in 2003 to approximately HK$18.9 million in 2004, an increase of approximately 53.8%, compared to a approximately 81.3% increase in turnover in 2004. Trade receivables as at 31 December 2004 were fully settled.

Trade receivables increased from approximately HK$18.9 million at 31 December 2004 to approximately HK$28.1 million at 30 June 2005, as there was a delay in settlement by IKEA amounted to approximately HK$9.8 million, which were settled in the first week of July 2005.

Trade receivables increased by a lesser extent as compared to the increase in turnover as a result of the disposal of Heat Exchanger Business because the customers of the Heat Exchanger Business, in general, had a longer credit period of 90 days. In addition, trade balances with related companies represented a higher proportion of trade receivables than the proportion of sales with related companies during the Track Record Period because trade balances with related companies had a term of 90 days while most of the customers of the Group had a term of 30 days.

Deposits and other receivables

Deposits and other receivables increased from approximately HK$7.3 million as at 31 December 2003 to approximately HK$11.4 million as at 31 December 2004.

Deposits and others receivables at 31 December 2004 mainly consisted of approximately HK$1.6 million prepaid expenses for the listing of the Shares in GEM and approximately HK$7.6 million deposits paid to suppliers for acquisition of raw materials of which approximately HK$2.6 million was made in anticipation of the increased production volume in the first quarter of 2005, and approximately HK$2.7 million was made in relation to JF Metal which commenced production in January 2005.

The balance of the approximately HK$2.2 million deposit and other receivables mainly represented the deposits paid for acquiring property, plant and equipment, security deposit paid to customs office and tax refund for export.

Deposit and other receivables decreased by approximately HK$0.4 million as at 30 June 2005 when compared to 31 December 2004. Deposits and other receivable at 30 June 2005 mainly consisted of prepaid expenses of approximately HK$3.7 million for the listing of the Shares on GEM, approximately HK$3.3 million paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) to express the Group's intention to acquire the land use rights of a parcel of land, approximately HK$2.9 million paid to suppliers for acquisition of raw materials was made in anticipation of the increased production volume in the third quarter of 2005 and the balances represented the deposits paid for acquiring property, plant and equipment and tax refund for export. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with 餘姚市國土資源局姚北工業新區分局 (the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City) for the acquisition of the land use rights of a parcel of land 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 previously paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) transferred as part of the consideration paid upon the signing of the Transfer Agreement.

Due from directors and due from related companies

Amounts due from the Directors decreased from approximately HK$1.4 million to HK$1,560 as at 31 December 2004 and decreased to nil as at 30 June 2005 as the Directors repaid the cash advance from the Group during the Track Record Period.

Amounts due from related companies decreased from approximately HK$4.2 million to approximately HK$2,850 as at 31 December 2004 as the related companies repaid the cash advance from the Group in 2003 during the year ended 31 December 2004.

Amounts due from related companies amounted to HK$2,850 as at 31 December 2004 were fully repaid during the six months ended 30 June 2005. Amounts due from related companies as at 30 June 2005 amounted to approximately HK$25,252 represented the expenses paid on behalf of the related company.

Amounts due from the Directors and related companies had been properly recorded and approved and were fully settled before the date of this prospectus. The advances to the related companies were made for the purpose of facilitating short-term needs for funding and were sourced from internal resources of the Group. Although it is not unusual for private companies of a same group to make advances to each other from their working capital while they are still private companies and for shareholders and/or directors to maintain current accounts with such private companies so far such advances are properly recorded and approved and the interests of the relevant shareholders are not prejudiced, according to the PRC legal advisers of the Company, advancing activities made between the Group and related companies established in the PRC were in breach of 《貸款通則》("Finance Regulations"). As at the Latest Practicable Date, all of the relevant advances had been fully repaid and no disputes in respect of such advances had ever arisen. Further, the then ultimate shareholders of the Company (i.e. Mr. Yan Siu Wai and Mr. Leung Kwok Yin) had provided an indemnity in favor of the Group to indemnify the Group any fine charged by The People's Bank of China and other damages sustained by the Group due to such advances with the related companies and Directors in breach of the relevant PRC laws and regulations. As advised by the PRC legal advisers of the Company, the possible penalty imposed by The People's Bank of China is a fine equivalent to 1 to 5 times of the income (i.e. interests) generated from such advances.

The Directors confirmed that no such advances are intended to be continuing after listing. In the event that any of such advances are necessary after listing, such advances will only be extended if (i) they are legal and enforceable pursuant to all relevant laws and regulations; and (ii) the Group is able to fully comply with all the requirements under the GEM Listing Rules.

Pledged bank deposit

During the year ended 31 December 2004, new loan facilities of US$2,400,000 (approximately HK$18,720,000) were obtained from Business Development Bank Ltd. The facilities were partly secured by a deposit of HK$3.1 million. No such deposit was made at the year ended 31 December 2003.

The Group fully settled the outstanding loan obtained from Business Development Bank Ltd during the six months ended 30 June 2005 and the related securities released accordingly.

Trade payables

Trade payables increased from approximately HK$7.7 million as at 31 December 2003 to approximately HK$12.6 million as at 31 December 2004, representing an increase of approximately 63.0%, compared to an increase in turnover of approximately 81.3%. Trade payables amounted to approximately HK$9.8 million were settled as at 31 March 2005.

Trade payables increased from approximately HK$12.6 million at 31 December 2004 to approximately HK$16.5 million at 30 June 2005, representing an increase of 31.0%, comparable to an increase in turnover of approximately 38.2% which was in line with the increase of the turnover.

In general, trade balances with related companies represented a higher proportion of trade payables than the proportion of purchases with related companies during the Track Record Period because trade balances with related companies had a term of 90 days while most of the domestic suppliers of the Group needed to be paid on delivery.

Bank borrowings

Bank borrowings increased from approximately HK$15.9 million to approximately HK$22.9 million which provided additional working capital for financing the acquisition of raw materials, and capital expenditures on machinery and the construction of the new factory premises completed in June 2004.

At the end of December 2003, the Group's bank borrowings were obtained from two banks, namely, Shanghai Pudong Development Bank and China Merchant Bank.

In 2004, the Group repaid the bank borrowings from Shanghai Pudong Development Bank and China Merchant Bank.

At 31 December 2004, the Group obtained new bank borrowings from another two banks, namely, Bank of China and Business Development Bank Ltd of approximately HK$8.9 million and approximately HK$14.0 million respectively.

For the six months ended 30 June 2005, bank borrowings decreased from approximately HK$22.9 million at 31 December 2004 to approximately HK$15.6 million at 30 June 2005 as the Group has settled the bank borrowings advanced from Business Development Bank Ltd. At 30 June 2005, the Group's bank borrowings were obtained from Bank of China.

In general, the Group looks for banks which can provide flexible banking facilities and lower interest costs to the Group.

CRITICAL ACCOUNTING POLICIES

Accounting estimates are an integral part of the financial information prepared by the Directors and are based upon management's then judgement. Section 2 "Principal accounting policies" of the accountants' report set out in Appendix I to this Prospectus includes a summary of the principal accounting policies adopted by the Group. Critical accounting policies are those that are both most important to both the Group's financial conditions and results of operations, and require management's most difficult, subjective, or complex judgement, often as a result of the need to make estimates about the effect of matters that may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial information and because of the possibility that future events affecting the estimate may differ significantly from management's current judgement. The estimate and the underlying assumption has not been changed during the Track Record Period and is not expected to change in the near future. The Directors believe the following critical accounting policies involve the most significant judgements and estimates used in the preparation of financial information.

Recent accounting pronouncement

The Hong Kong Institute of Certified Public Accountants has recently issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (hereinafter collectively referred to as the "new HKFRSs") which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has adopted these currently in issue new HKFRSs in the preparation of the financial statements for the Group as set out in Appendix I to this prospectus for the Track Record Period.

Based on the assessment of the Directors, the Directors are of the opinion that the adoption of the new HKFRSs would not have a significant impact on the Group's results of operations and financial position and how the results of operations and financial position of the Group of the Relevant Periods are prepared and presented.

Depreciation of property, plant and equipment

It is the Group's accounting policy on the depreciation of the cost of the property, plant and equipment to use straight-line method over the respective estimated useful lives of the different classes of property, plant and equipment. The Group's accounting policy is adopted by making reference to the physical conditions of the property, plant and equipment and the industry's practice.

Provision for obsolete and slow moving inventories

The Group's inventories are stated at the lower of cost (on weighted average basis) and net realisable value. The Group makes provisions based on the review with reference to the age and conditions of the inventories, together with the economic circumstances on the marketability of such inventories. Inventories will be reviewed annually for obsolescence provisions, if appropriate. Given the durable and anti-corrosive characteristics of the inventories of the Group, the provision of inventories is considered unnecessary by the Directors.

Allowance for doubtful receivables

The Directors perform ongoing credit evaluations of the customers' financial condition and make allowances for doubtful receivables based on specific customer circumstances, current economic trends, historical experience with collections and the age of the past due receivables. Unanticipated changes in the liquidity or financial position of the Group's customers may require additional allowances for doubtful receivables.

The Group's policy on provision of doubtful debts is based:

1. on 30% of trade receivables for balance outstanding over one year;

2. on 60% of trade receivables for balance outstanding over two year; and

3. on 100% of trade receivables for balance outstanding over three years.

During the Track Record Period, no provisions were made for trade receivables.

TRADING RECORD

The following table summarises the Group's audited combined results for each of the two years ended 31 December 2004 and the six months ended 30 June 2005 and the unaudited combined results for the six months ended 30 June 2004, and is prepared on the assumption that the current structure of the Group has been in existence throughout the periods under review. This summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

	Year ended 31 December		For the six months ended 30 June	
	2003	2004	2004	2005
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Turnover *(Note 1)*	84,087,159	152,459,445	68,597,208	94,792,451
Cost of sales	(64,024,530)	(122,790,746)	(56,264,037)	(76,922,222)
Gross profit	20,062,629	29,668,699	12,333,171	17,870,229
Other revenue	32,083	64,086	30,287	12,186
Other income	491,156	326,068	83,194	532,265
Selling and distribution costs	(2,353,259)	(1,008,822)	(568,114)	(653,290)
Administrative expenses	(2,379,214)	(5,894,030)	(1,262,827)	(3,499,694)
Profit from operations	15,853,395	23,156,001	10,615,711	14,261,696
Finance costs	(425,210)	(1,199,672)	(480,459)	(587,529)
Profit before taxation	15,428,185	21,956,329	10,135,252	13,674,167
Taxation	(2,041,223)	(3,079,425)	(1,324,269)	(1,745,743)
Profit attributable to the equity holders of the Company	13,386,962	18,876,904	8,810,983	11,928,424
Profit distributions/dividend	11,016,527	4,530,457	—	—
Earnings per share *(Note 2)*	N/A	N/A	N/A	N/A

Notes:

1. Turnover represents the net amount received and receivable for goods sold to customers.

2. No earnings per share information is presented as its inclusion is not considered meaningful due to the Reorganisation and the preparation of the results on a combined basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Introduction

The Group derives its revenue from the manufacturing and sale of furnishings and home products and accessories on an OEM basis which is recognised upon delivery of goods to the customers. The products are used mainly in kitchen and bathroom. The plant is located in the city of Yuyao, Ningbo of the Zhejiang province.

The Group's major products consisted of stainless steel pedal pin, cabinet handles, kitchen products, bathroom products and other accessories. The Group also manufactured heat exchangers for use in air-conditioners. In order to focus on the furnishings and home products, the Group had disposed of the Heat Exchanger Business in July 2004.

The market of furnishings and home products and accessories depend on the general trend of economic condition and consumers' tastes and preferences. As most of the products are sold to European and North American markets, the economy of these two regions will affect the demand for the products of the Group.

The Directors believe that the Group has experienced a remarkable growth during the Track Record Period, mainly due to the following two reasons:

a. The Group has caught a favourable trend in the market as stainless steel products is becoming popular in household kitchen and bathroom use.

b. The Group is well positioned to take advantage of the trend for the Group's major customer, IKEA, to source more products from the PRC.

Stainless steel is currently a popular material being used for home furnishing products. As such, the price of stainless steel has a material impact on the gross profit of the Group.

In the past two years, the price of stainless steel has risen steadily, and thus increased the costs of the furnishing and home products of the Group. However the effect was mostly offset by price increase passed on by the Group to its customer for the increasing cost in stainless steel. Management has been monitoring the price movements of steel closely and devising appropriate strategy to minimise any adverse impacts for the price increase in steel.

As there has been a substantial growth of the Group's products principally made of stainless steel, the Group has been relying on IKEA's increasing demand for such products and focusing on the same category of products in the past. The Group has planned to diversify to a broader category of products by using other types of materials, such as different types of steel and wood. In addition, the Group is taking actions to broaden its customer base to increase its sources of revenue.

Comparison of the results for the two years ended 31 December 2004

Turnover

During the Track Record Period, the Group's revenue was principally derived from the manufacture and sale of furnishings and home products and accessories to international retailers.

Turnover represented the net amounts received and receivable from the sale of furnishings and home products and accessories and heat exchangers. For the two years ended 31 December 2004, turnover of the Group amounted to approximately HK$84.1 million and HK$152.5 million respectively, representing an increase of approximately HK$68.4 million and a percentage increase of approximately 81.3%. The increase in total turnover by approximately 81.3% is mainly attributable to the increase in sales to IKEA and the price adjustments due to the increase in prices of stainless steel.

The Heat Exchanger Business was disposed of in the year ended 31 December 2004.

Below is a breakdown of the turnover of the two product categories:

	Year ended 31 December	
	2003	**2004**
	HK$	*HK$*
Furnishings and home products and accessories	72,239,114	145,431,977
Heat exchangers	11,848,045	7,027,468
Total turnover for the Group	84,087,159	152,459,445

Total turnover increased by approximately HK$68.4 million, which comprised approximately HK$73.2 million increase in the turnover of furnishings and home products and approximately HK$4.8 million decrease in turnover of the Heat Exchanger Business. The increase in the turnover of furnishings and home products businesses by approximately HK$73.2 million was attributable to the increase in sales to IKEA, the Group's key customer, and the turnover from new customers. The drop of the turnover of the Heat Exchanger Business was due to the disposal of the business in July 2004.

The Directors believe that the increase in sales to IKEA was mainly due to the following reasons:

1) Increase of sales in existing products due to increasing customer demand;

2) Price increase of items to IKEA, some of which were up to 10%;

3) Introduction of new products to IKEA such as wall shelves; and

4) IKEA sourced more product from the PRC.

All key product lines recorded increase in sales except for cabinet handles.

	2003	2004
	HK$'000	*HK$'000*
Pedal bin	16,321	20,800
Cabinet handles	7,771	6,245
Kitchen products	27,676	73,394
Bathroom products	18,932	32,823

As indicated above, both kitchen products and bathroom products achieved significant increase in turnover by approximately HK$45.7 million and HK$13.9 million respectively.

The Group started diversifying its customers for furnishings and home products and accessories. New customers accounted for approximately HK$12.6 million in sales for the year ended 31 December 2004.

Gross profit

For the two years ended 31 December 2004, cost of sales amounted to approximately HK$64.0 million and HK$122.8 million respectively. Costs of sales mainly comprised direct materials, labour costs and factory overheads.

For the two years ended 31 December 2004, the gross profit increased from approximately HK$20.0 million to HK$29.7 million, representing an increase of approximately 47.9%. The increase of gross profit was not in line with the increase in turnover of approximately 81.3%, due to a decrease in gross profit margin from approximately 23.9% in 2003 to approximately 19.5% in 2004.

Gross profit for the furnishings and home products and accessories, and heat exchangers can be summarised as follows:

	Year ended 31 December	
	2003	2004
	HK$	*HK$*
Furnishings and home products and accessories	15,927,710	29,081,828
Heat exchangers	4,134,919	586,871
Total	20,062,629	29,668,699
Representing profit margin of:		
Furnishings and home products and accessories	22.05%	20.00%
Heat exchangers	34.90%	8.35%

Given the higher profit margin of the Heat Exchanger Business in 2003, the decrease in gross profit margin for the Group as a whole was mainly due to the disposal of the Heat Exchanger Business which resulted in a lower gross profit margin of the Group's business for the year ended 31 December 2004.

Gross profit for the furnishings and home products and accessories

The gross profit of furnishings and home products business increased by approximately HK$13.2 million. The increase was mainly due to the increase in the quantities sold and the increase of the product prices.

However, the gross profit margin dropped from approximately 22.05% for the year 2003 to 20.00% for the year 2004. The drop of the gross profit margin was mainly due to the following two reasons:

1) Average price of stainless steel increased by approximately 19.6%; and

2) Value-added tax refunded for export sales of furnishings business drop from approximately 15% to approximately 13% as a result of changes in the PRC tax regulations.

New order increase from customers accounted for approximately HK$11.2 million increase of the gross profit.

Due to the increase in the price of stainless steel, the Group's principal key material, management had successfully requested an increase in price in some of the products, which contributed approximately HK$13.2 million increase in the gross profit.

The above factors contributed a total increase of approximately HK$24.4 million in gross profit. However, the two favourable factors were partly offset by the cost increase of raw materials and the increase of value-added tax ("VAT").

The price increase in stainless steel increased the Group's cost of sales of furnishings and home products by about approximately HK$ 7.6 million, and the drop in the refunding percentage of the VAT for export sales had increased the cost by approximately HK$3.1 million.

Gross profit for heat exchangers

Gross profit margin for the Heat Exchanger Business was relatively higher at 34.90% for the year ended 31 December 2003. The margin was high as the Heat Exchanger Business is a niche market and each model of heat exchanger requires a special design.

However, for the year ended 31 December 2004, the gross profit margin dropped significantly to only 8.35% as the cost of materials and parts increased substantially and at the same time, price for air-conditioners dropped and the Group was forced to reduce the price to customers.

Cost of sales for the furnishings and home products and accessories

Excluding the Heat Exchanger Business which had been disposed in 2004, the turnover for furnishings and home products accessories increased from approximately HK$72.2 million for the year ended 31 December 2003 to approximately HK$145.4 million for the year ended 31 December 2004, representing an increase of approximately HK$73.2 million or a percentage increase of 101.3%.

Cost of sales increased by approximately HK$60.0 million or 106.6% from HK$56.3 million during the year ended 31 December 2003 to approximately HK$116.3 million during the year ended 31 December 2004 primarily because of the continuing growth in turnover in 2004.

Material costs for the furnishings and home products and accessories

Direct material costs which mainly comprised stainless steel, increased by approximately HK$56.0 million or 112.9% for the year ended 31 December 2004 from approximately HK$49.6 million for the year ended 31 December 2003 to approximately HK$105.6 million for the year ended 31 December 2004. The increase in material costs was primarily attributable to the increase in the Group's turnover.

Direct material as a percentage of sales increased from approximately 68.7% for the year ended 31 December 2003 to approximately 72.6% for the year ended 31 December 2004. The 3.9% increase is mainly due to the price increase in stainless steel.

Direct labour for the furnishings and home products and accessories

The increase in direct labour costs for the year ended 31 December 2004 was generally in line with the increase in turnover during the year. However, the Group was able to improve the labour efficiency and the percentage of direct labour to turnover dropped from approximately 6.2% for the year ended 31 December 2003 to approximately 4.9% for the year ended 31 December 2004.

Overheads for the furnishings and home products and accessories

Overheads for the year ended 31 December 2004 increased by approximately HK$2.5 million with the increase in turnover.

Similar to direct labour, the Group was able to control overheads spending and achieved a saving of approximately 0.5% in the percentage of overheads to turnover, from approximately 3.0% for the year ended 31 December 2003 to approximately 2.5% for the year ended 31 December 2004.

Selling and distribution costs

For each of the two years ended 31 December 2004, selling and distribution costs amounted to approximately HK$2.4 million and approximately HK$1.0 million respectively. The selling and distribution costs mainly represented the transportation costs, label & packaging expenses and agency fee.

The reduction of selling and distribution costs was mainly due to the agency fee of approximately HK$1.74 million paid to a related company in 2003 relating to handling charges of import and export letters of credit was no longer paid in 2004.

Excluding the agency fee as mentioned above, for each of the two years ended 31 December 2004, increased by approximately 63.8% which was in line with the increase in sales.

Administrative expenses

For each of the two years ended 31 December 2004, the administrative expenses amounted to approximately HK$2.4 million and HK$5.9 million respectively.

The increase in administrative expenses was mainly due to the increase of director emoluments and senior management remunerations of approximately HK$2.75 million in view of the increased responsibilities of the directors and senior management as a result of the expansion of the Group's business.

Excluding the director emoluments as mentioned above, the administrative expenses increased from approximately HK$2.4 million in 2003 to approximately HK$3.1 million in 2004, representing an increase of approximately 32.1%. The main reason was due to the increase of HK$0.28 million of entertainment costs, approximately HK$0.29 million of staff benefits and welfare and approximately HK$0.09 million of bank charges.

Finance costs

Finance costs in 2004 was particularly high as the average bank borrowings for the years ended 31 December 2004 and 2003 was about approximately HK$19.4 million and approximately HK$11.9 million respectively, representing approximately 63.0% increase.

In addition, the Group obtained temporary cash advances from the related companies, Yuyao Jiefeng Air-Con of RMB3,000,000 (approximately HK$2,830,189), Yuyao Jiefeng Fan and Air-conditioning Co., Ltd of RMB2,000,000 (approximately HK$1,886,792), and an independent third party, the Group paid interests amounting to HK$92,506, HK$49,449 and HK$301,887 thereon respectively in the year 2004 and no such interests were paid in 2003.

Mr. Yan Siu Wai and Mr. Leung Kwok Yin are directors of and hold beneficial interests in these related companies.

Income tax expenses

The Group's PRC entity JF Ningbo is subject to the PRC enterprise income tax ("EIT") at a rate of 26.4%. It was entitled to an exemption from the EIT for two years starting from its first profit-making year, followed by a 50% tax relief for the next three years.

JF Ningbo started the tax holiday period in 2001, therefore, the reduced income tax rate 13.2% has been applied for the 3rd (2003) to the 5th (2005) year during the Track Record Period.

The increase of approximately HK$1.0 million in income tax expenses was mainly due to the increase of net profit before tax.

Effective tax rates for the two years ended 31 December 2004 were 13.2% and 14.0% respectively. The effective tax rate did not exhibit a significant difference from the official reduced tax rate.

Higher effective tax rate was recorded for the year ended 31 December 2004 as the Hong Kong office expenses amounting to HK$2.75 million was not entitled to the PRC income tax deduction. The higher tax amount was partly offset by HK$1.47 million listing expenses deducted as expenses in the PRC for IPO purposes.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company increased by approximately HK$5.5 million from the year ended 31 December 2003 to the year ended 31 December 2004 and was mainly due to the increase in turnover by approximately 81.3% from approximately HK$84 million in 2003 to approximately HK$152 million in 2004.

The increase in profit attributable to the equity holders of the Company from 2003 to 2004 was mainly contributed by the growth of the gross profit of approximately HK$9.6 million, the reduction of selling and distribution costs of approximately HK$1.3 million, and partly offset by the administrative expenses of approximately HK$2.75 million in the new Hong Kong office, the increase of approximately HK$1.0 million in income tax and the increase of approximately HK$0.77 million in finance costs.

Net profit margin, however, dropped from approximately 15.9% for the year ended 31 December 2003 to approximately 12.4% for the year ended 31 December 2004, mainly because of the following reasons:

1) Gross profit margin of the furnishings and home product businesses dropped from approximately 22.05% to 20.00%, as a result of the increase of stainless steel price and the drop in the value-added tax refund percentage from 15% to 13%;

2) The disposal of the Heat Exchanger Business contributed approximately HK$3.5 million less gross profit for the year ended 31 December 2004 as compared to 2003; and

3) Administrative expenses as a percentage of sales increased from approximately 2.83% to approximately 3.87%, mainly due to increase of director emoluments and senior management remunerations of approximately HK$2.75 million as a result of the expansion of the Group's business.

Comparison of the results for the six months ended 30 June 2004 and 30 June 2005

Turnover

For the six months ended 30 June 2004 and 2005, turnover represented similar furnishings and home products and accessories sold during the two years ended 31 December 2004, except that there was no revenue generated from the sale of heat exchanger in 2005 as the Group had disposed of the Heat Exchange Business in July 2004.

For the six months ended 30 June 2004 and 2005, turnover of the Group amounted to approximately HK$68.6 million (unaudited) and HK$94.8 million respectively, representing an increase of approximately HK$26.2 million and a percentage increase of approximately 38.2%. The increase in the Group's total turnover by approximately 38.2% was mainly attributable to the increase in sales to IKEA and the price increment as a result of the increase in stainless steel price.

Below is a breakdown of the turnover of the two product categories:

	For the six months ended 30 June	
	2004	**2005**
	HK$	*HK$*
	(unaudited)	
Furnishings and home products and accessories	61,569,740	94,792,451
Heat exchangers (discontinued)	7,027,468	—
Total turnover for the Group	68,597,208	94,792,451

The increase in total turnover of approximately HK$26.2 million (unaudited) for the six months ended 30 June 2004 and 2005 was a result of an increase in the turnover of furnishings and home products of approximately HK$33.2 million (unaudited) and the drop of approximately HK$7.0 million (unaudited) in the turnover of the Heat Exchanger Business as the Heat Exchanger Business had disposed of in 2004.

The increase in turnover of furnishings and home products businesses of approximately HK$33.2 million was mainly attributable to the increase in sales to IKEA, in which approximately HK$31.0 million was due to the increase in sales quantity and approximately approximately HK$2.2 million was due to the price increment of the Group's products.

Gross profit

For the six months ended 30 June 2004 and 2005, cost of sales amounted to approximately HK$56.3 million (unaudited) and HK$76.9 million respectively, representing an approximately

36.7% increase. The increase was mainly attributable to increase in sales volume and increase in stainless steel prices. Costs of sales mainly comprised of direct materials, labour costs and factory overheads.

For the six months ended 30 June 2004 and 2005, the gross profit increased from approximately HK$12.3 million (unaudited) to approximately HK$17.9 million, representing an increase of approximately 44.9% (unaudited). The percentage increase of gross profit was higher than the percentage increase in turnover of approximately 38.2% (unaudited), as the disposed Heat Exchanger Business had a lower gross profit margin of 8.4% (unaudited) in 2004 as compared to the profit margin of the furnishings and home products and accessories of 19.1% (unaudited) in 2004.

Gross profit for the furnishings and home products and accessories and heat exchangers were summarised as follows:

	For the six months ended 30 June	
	2004	**2005**
	HK$	*HK$*
	(unaudited)	
Furnishings and home products and accessories	11,746,300	17,870,229
Heat exchangers	586,871	—
Total	12,333,171	17,870,229
Representing gross profit margin of:		
Furnishings and home products and accessories	19.1%	18.9%
Heat exchangers	8.4%	—

Gross profit for the furnishings and home products and accessories

Gross profit of furnishings and home products business increased by approximately HK$6.1 million (unaudited) for the six months ended 30 June 2005 compared to six months ended 30 June 2004. The increase was mainly due to the increase in the sales to IKEA and the price adjustments of the Group's products.

However, for the six months ended 30 June 2004 and 2005, the gross profit margin dropped from approximately 19.1% (unaudited) to approximately 18.9% respectively. The drop of the gross profit margin was mainly due to the increase in prices of stainless steel and the drop of value added tax refunded for export sales of furnishings and home products and accessories of approximately HK$0.85 million for the six months ended 30 June 2005 as compared to the six months ended 30 June 2004.

Gross profit for heat exchangers

Gross profit margin for the Heat Exchanger Business for the six months ended 30 June 2004 was approximately 8.4%. As the Heat Exchange Business had disposed of in July 2004, the Heat Exchanger Business ceased to contribute any gross profit margin of the Group since then.

Cost of sales for the furnishings and home products and accessories

Excluding the Heat Exchanger Business which had been disposed of in 2004, for the six months ended 30 June 2004 and 2005, the cost of sales for furnishings and home products and accessories had increased by approximately HK$27.1 million, from approximately HK$49.8 million (unaudited) to approximately HK$76.9 million, representing an increase of approximately 54.4%. The increase was in line with the increase in the turnover of approximately 52.1% for the respective period.

Material costs for the furnishings and home products and accessories

For the six months ended 30 June 2004 and 2005, direct material costs increased by approximately HK$22.1 million or 48.7%, from approximately HK$45.4 million (unaudited) to approximately HK$67.5 million respectively. The increase in material costs was mainly due to increase in volume and increase in stainless steel price for the respective periods.

Direct material as a percentage of sales decreased from approximately 73.81% (unaudited) for the six months 30 June 2004 to approximately 71.30% for the six months ended 30 June 2005. The drop was mainly due to reclassification some of the costs into overhead costs. Please refer to the section "Overheads for the furnishings and home products and accessories" below for details.

Direct labour for the furnishings and home products and accessories

Direct labour as a percentage of turnover dropped from approximately 5.24% (unaudited) to approximately 4.66%, or from approximately HK$3.2 million (unaudited) to approximately HK$4.4 million, for the six months ended 30 June 2004 and 2005 respectively, as a result of the Group's continuous cost control and improvement in efficiency.

Overheads for the furnishings and home products and accessories

For the six months ended 30 June 2004 and 2005, overheads increased from approximately HK$1.2 million (unaudited) to approximately HK$5.0 million respectively, representing an increase of approximately HK$3.8 million. The increase was due to the increase in turnover in 2005 and the Group's reclassification of approximately HK$1.8 million of support materials into overhead, approximately HK$0.70 million of social security costs; and approximately HK$0.16 million of staff cost in relation to the increase in supervisory and support staff in production lines. Utilities costs also increased substantially by approximately HK$0.42 million as new production processes were introduced for environmental friendly purpose. Repair and maintenance expenses increased by approximately HK$0.34 million as approximately HK$0.34 million was spent on road surfacing (container loading) and rain shelters.

Selling and distribution costs

For the six months ended 30 June 2004 and 2005, selling and distribution costs amounted to approximately HK$0.57 million (unaudited) and approximately HK$0.65 million respectively, representing an increase of approximately 15.0%. The increase was not in line with the turnover increase of approximately 38.2% which was due to an exceptional costs of approximately HK$99,000 for the urgent delivery via air freight in 2004. No such exceptional costs was incurred in the 2005.

Excluding the exceptional costs as mentioned above, selling and distribution costs was increased by approximately 39.3% which was in line with the growth of turnover.

Administrative expenses

For the six months ended 30 June 2004 and 2005, administrative expenses amounted to approximately HK$1.3 million (unaudited) and approximately HK$3.5 million respectively.

The increase in administrative expenses was mainly due to the new Hong Kong office and the increase of director emoluments and senior management remunerations of approximately HK$1.52 million in view of the increased responsibilities of the directors and senior management as a result of the expansion of the Group's business.

Excluding the Hong Kong office expenses as mentioned above, the PRC administrative expenses increased by approximately HK$684,000 (unaudited), mainly due to additional staff and salaries in relation to the expansion of business of approximately HK$94,000 (unaudited), traveling and entertainment in relation to the listing activities of approximately HK$300,000 (unaudited), local property tax of approximately HK$70,000 (unaudited) and increase in bank charges of approximately HK$47,000 (unaudited).

Finance costs

For the six months ended 30 June 2004 and 2005, finance costs increased from approximately HK$480,000 (unaudited) to approximately HK$588,000 respectively, the increase was attributable to the average balance of loan increased from approximately HK$19.0 million (unaudited) for the 2004 period to approximately HK$20.8 million for the 2005 period, whilst average interest rate rose from approximately 5.03% (unaudited) to approximately 5.56% for the respective periods.

The increase in average loan balance of approximately 9.6% did not increase to the extent of the increase in turnover of approximately 38.2% as the Group settled the loans from Business Development Bank Ltd.

Income Tax Expenses

The Group's PRC entity JF Ningbo continued to enjoy a 50% tax relief as it entered the 5th year of the tax holiday in 2005.

Effective tax rates for the six months ended 30 June 2004 and 2005 were 13.1% (unaudited) and 12.8% respectively. The lower effective tax rate charge for the year 2005 was due to approximately HK$1.5 million Hong Kong expenses did not qualify for the PRC tax deductions set off by approximately HK$1.67 million listing expenses allowed for deduction in the PRC.

Profit attributable to the equity holders of the Company

For the six months ended 30 June 2005, profit attributable to the equity holders of the Company increased by approximately HK$3.2 million (unaudited) compared to the six months ended 30 June 2004, representing approximately 36.3% (unaudited) increase which was in line with the increase in turnover by approximately 38.2% (unaudited) for the respective period.

The increase in profit attributable to the equity holders of the Company from 2004 to 2005 mainly due to the growth of the gross profit of approximately HK$5.5 million, which was partly offset by the administrative expenses of approximately HK$1.5 million in the new Hong Kong office and the increase of approximately HK$0.42 million in income tax.

Net profit margin dropped slightly from approximately 12.8% (unaudited) to approximately 12.6% for the six months ended 30 June 2004 and 2005 respectively, mainly due to the increase in expenses of approximately HK$1.5 million for the new Hong Kong office.

Analysis of the Group's financial ratios

Selected financial ratios

	Year ended 31 December		**For the six months ended 30 June** *(note 5)*	
	2003	**2004**	**2004** *(unaudited)*	**2005**
Inventory turnover days *(Note 1)*	109	83	68	87
Debtors' turnover days *(Note 2)*	53	45	48	54
Creditors' turnover days *(Note 3)*	44	37	23	39
Gearing ratio *(Note 4)*	25%	27%	21%	16%

Note 1: Calculation of inventory turnover days is based on the ending inventories divided by cost of sales and multiplied by 365 days.

Note 2: Calculation of debtors' turnover days is based on the ending balance of trade receivables divided by turnover and multiplied by 365 days.

Note 3: Calculation of creditors' turnover days is based on the ending balance of trade payables divided by cost of sales and multiplied by 365 days.

Note 4: Calculation of gearing ratio is based on the bank borrowings divided by total assets.

Note 5: The various liquidity ratios calculated for the six months ended 30 June 2004 and 2005 are based on 181 days.

Inventory turnover days

Inventory turnover days of the Group decreased by approximately 26 days from approximately 109 days for the year ended 31 December 2003 to approximately 83 days for the year ended 31 December 2004 and from approximately 68 days (unaudited) to approximately 87 days for the six months ended 30 June 2004 and 2005.

For the financial years ended 31 December 2003 and 2004 and the six months ended 30 June 2005, inventories increased from approximately HK$19.1 million to approximately HK$28.1 million and further increased to approximately HK$36.9 million, representing an increase of approximately 47.2% and approximately 31.4% which was mainly due to the increase in turnover level as the management secured a higher level of stainless steel inventory when the price of stainless steel dropped significantly from May 2005.

Price of stainless steel increased on average by approximately 19.6% for 2003 and 2004, and had contributed to the increase of approximately HK$7.6 million in cost of sales.

Nevertheless, management had managed to reduce the inventory turnover days through economies of scale and better management of production flow. As some of the raw materials and semi-finished parts can be used for different products, the Group was able to reduce inventory level.

In order to improve the production process and further reduce inventory level, management has put in more effort to coordinate the production flow, in particular, more control to ensure each production unit adhere strictly to the production plan according to customer orders. As a result, inventory turnover days improved from approximately 109 days for the year ended 31 December 2003 to approximately 83 days for the year ended 31 December 2004 and kept at a similar level of approximately 87 days for the six months ended 30 June 2005 despite the price fluctuation in raw material cost.

Inventory turnover days of the Group increased from approximately 68 days (unaudited) to approximately 87 days for the six months ended 30 June 2004 and 2005 as management kept fewer inventory in June 2004 when the price of stainless steel was high and secured a higher level of stainless steel inventory when price drop significantly in May and June of 2005.

Debtors' turnover days

Debtors' turnover days decreased by approximately 8 days from approximately 53 days for the year ended 31 December 2003 to approximately 45 days for the year ended 31 December 2004 and then increased from approximately 48 days (unaudited) for the six month ended 30 June 2004 to approximately 54 days for the six months ended 30 June 2005.

Trade receivables increased from approximately HK$12.3 million in 2003 to approximately HK$18.9 million in 2004 and further increased to approximately HK$28.1 million as at 30 June 2005, an increase of approximately 53.8% and approximately 48.7%, compared to approximately 81.3% and approximately 38.2% (unaudited) increase in turnover for the year ended 31 December 2003 and 2004 and the six months ended 30 June 2004 to the same period of 2005.

Debtors' turnover days improved by approximately 8 days from 2003 to 2004 due to management's effort to control the invoice issuing process.

The high debtors' turnover days of approximately 54 days for the six months ended 2005 as compared to approximately 48 days (unaudited) for the same period in 2004 was mainly due to a delay in settlement by IKEA in which approximately HK$9.8 million out of approximately HK$28.1 million trade receivables as at 30 June 2005, which were settled in the first week of July 2005.

Payment by the Group's key customer is normally four weeks after it receives the invoices. To obtain a faster turnaround of payment received, management put a tighter control on the invoice issuing process to ensure invoices were sent out on a timely basis. Moreover, the Group also started contacting customers when the payments were not made on time to ensure there was no misunderstanding or missing invoices.

Creditors' turnover days

Creditors' turnover days decreased by approximately 7 days from approximately 44 days for the year ended 31 December 2003 to 37 days for the year ended 31 December 2004.

Trade payables outstanding increased from approximately HK$7.7 million as at 31 December 2003 to approximately HK$12.6 million as at 31 December 2004 and further increased to approximately HK$16.5 million as at 30 June 2005, representing an increase of approximately 63.0% and approximately 31.0%, compared to an increase in turnover of approximately 81.3% for the year ended 31 December 2003 and 2004 and 38.2% (unaudited) for the six months ended 30 June 2004 and 2005.

Creditors' turnover days reduced from approximately 44 days in 2003 to approximately 37 days in 2004 and maintained at a similar level at 30 June 2005, as customers' payment improved and the Group had stronger cash resources and increased banking facilities. The Group was able to pay the suppliers earlier with better cash position.

Creditors' turnover days increased from approximately 23 days (unaudited) for the six months ended 30 June 2004 to approximately 39 days for the six months ended 30 June 2005, as trade payables was at a relative low level at the end of June 2004 due to purchases of stainless steel are mainly sourced from domestic suppliers with payment terms of either cash on delivery or payment in advance.

Gearing ratio

Gearing ratio increased from approximately 25.0% in 2003 to approximately 27.0% in 2004, as total assets increased by approximately HK$21.3 million or approximately 33.5% from 2003 to 2004 while bank borrowing increased by approximately HK$ 7.1 million or approximately 44.6% for the same period in order to provide additional working capital requirement for financing the acquisition of raw materials, capital expenditure on machinery and the construction of the new factory premises completed in June 2004.

Total assets increased by approximately HK$21.3 million mainly due to the increase of approximately HK$9.0 million in inventory, HK$6.6 million in trade receivables, and HK$4.2 million in deposits and other receivables.

Gearing ratio dropped significantly to 16% as at 30 June 2005, as bank borrowings dropped significantly from approximately HK$22.9 million at the end of 31 December 2004 to approximately HK$15.6 million for the six months ended 30 June 2005, while total assets increased from approximately HK$84.8 million to approximately HK$94.7 million for the respective period.

Gearing ratio reduced from approximately 21% (unaudited) as at 30 June 2004 to approximately 16% at 30 June 2005 as total assets increased from approximately HK$67.9 million (unaudited) to approximately HK$94.7 million for the corresponding periods, representing an increase of approximately 39.5%, while bank borrowings increased from approximately HK$13.9 million (unaudited) to approximately HK$15.6 million for the corresponding periods, representing an increase of approximately 12%, as the Group paid off borrowings from Business Development Bank Ltd before listing.

Please refer to the paragraph headed "Liquidity, Financial Resources and Capital Structure" for further analysis of each item.

TAXATION

The Group was not required to pay Hong Kong profits tax for the two years ended 31 December 2004 and six month ended 30 June 2005 as the Group did not generate any assessable profits arising from Hong Kong during such period. Pursuant to the relevant income tax laws and regulations in the PRC, JF Ningbo's and JF Metal's operations are eligible for exemption from PRC enterprise income tax for the two years starting from the first profit-making year and a 50% tax relief in the following three years. The first profit-making year of JF Ningbo was 2001. The applicable income tax rate is 26.4%.

PROPERTY INTERESTS

Property interests held and occupied by the Group in the PRC

The Group owns a parcel of land, buildings and structure, located at Yuyao Industrial Development Zone B, Yuyao, Zhejiang Province, PRC. The property located at Yuyao Industrial Development Zone B consists of a piece of land with total land area of approximately 17,549 sq.m. and five buildings with total gross floor area of approximately 10,192.39 sq.m.. The buildings are the Group's main production facilities which are used for storage, production, office and staff canteen. The Group has obtained the state-owned land use rights certificate for industrial use and building ownership certificates for the properties mentioned above. The land use rights and two buildings are mortgaged to Bank of China Yuyao Branch for the period commenced from 24 January 2005 to 23 January 2007. Details of the properties are set out in Appendix III to this prospectus.

Property interests to be acquired by the Group in the PRC

The Group has entered into a State-owned land use rights 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) on 19 August 2005 for the acquisition of a piece of land of 44,105 sq.m. located at Yaobei Industrial New Zone, Yuyao, Zhejiang Province, the PRC. Details of the land to be acquired are set out in Appendix III to this prospectus.

Properties rented and occupied by the Group in Hong Kong

At the Latest Practicable Date, the Group has entered into a licence memorandum dated 10 March 2005 with A.C.R. Equipment Supplies Limited, for the use of a specified area of 34.8 sq.m., located at 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong for a term commencing from 10 March 2005 to 9 March 2007 at a monthly license fee of HK$4,500.

Property valuation

Based on the valuation performed by Grant Sherman Appraisal Limited, an independent valuer, the value of the property interests currently held by the Group was approximately HK$11,820,000 and the property interests to be acquired by the Group was approximately HK$14,810,000 as at 31 July 2005. The text of the letter, valuation summary and valuation certificates in connection with the aforesaid property interests are set out in Appendix III to this prospectus.

The statement below shows the reconciliation of land use rights and buildings from the audited combined financial statements as at 30 June 2005 to the unaudited net book value of our property interests as at 31 July 2005:

	HK$
Net book value as at 30 June 2005	7,328,838
Movements for the one month ended 31 July 2005	
Depreciation	(28,718)
Net book value as at 31 July 2005	7,300,120
Valuation surplus as at 31 July 2005	4,519,880
Valuation as at 31 July 2005 per Appendix III	11,820,000

DISTRIBUTABLE RESERVES

The Company was incorporated in Cayman Islands on 19 January 2005. As at 30 June 2005, the Company did not have any reserves available for distribution to its then shareholders.

DIVIDEND POLICY

The Company intends to declare and pay dividends in the future. The declaration, payment and the amount of any dividends in the future will depend on among others, the Company's results of operations, available cash flows, financial condition, operating and cash requirements, the provision of the relevant laws and other factors which the Directors may consider important.

Subject to the factors considered above, the Directors currently intends to recommend at the relevant shareholders' meeting an annual dividend of approximately 10% to 30% of the net profit available for distribution to the shareholders of the Company in the foreseeable future.

During the Track Record Period, the amount of dividend declared and dividend payout ratio for the Group were HK$11,016,527 and 82.3% for the year ended 31 December 2003 respectively, and HK$4,530,457 and 24% for the year ended 31 December 2004 respectively.

WORKING CAPITAL

Taking into account the financial resources available to the Company, including internally generated funds, the available banking facilities and the estimated net proceeds from the Placing, the Directors are of the opinion that the Company has sufficient working capital for its present requirements.

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

In accordance with Rules 17.15 to 17.17 of the GEM Listing Rules, the Group had the following disclosures in relation to the details of advances to an entity:

Name of entity	Outstanding balances as at 30 June 2005
	HK$'000
IKEA Trading (Hong Kong) Ltd.	23,858

The above entity is a customer of the Group and is an Independent Third Party. The above amount represented the balance of trade receivables for the sales made to the customer as at 30 June 2005. The amount is unsecured, interest-free and payable in accordance with the credit terms as agreed with the respective customers.

Part of the trade receivable due from IKEA Trading (Hong Kong) Ltd. was also repaid in July 2005 and accordingly as at 31 July 2005, the trade receivables due from IKEA Trading (Hong Kong) Ltd. was approximately HK$3,066,220.

Save as disclosed above, the Directors have confirmed that, as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to disclosure requirements under Rules 17.15 to 17.21 of the GEM Listing Rules.

PROFORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative statement of proforma adjusted net tangible assets of the Group which has been prepared in accordance with Rule 7.31 of the GEM Listing Rules for the purpose of illustrating the effect of the Placing as if it had been taken place on 30 June 2005 and based on the combined net tangible assets of the Group as at 30 June 2005 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as described below:

	Audited combined net tangible assets of the Group as at 30 June 2005	Estimated net proceeds from the Placing	Proforma adjusted net tangible assets	Proforma adjusted net tangible asset value per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
		(Note 1)		*(Note 2)*
Based on the Placing of HK$0.80 per Share	37,232	23,226	60,458	0.36
Based on the Placing of HK$0.96 per Share	37,232	29,694	66,926	0.40

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following the Placing. Further information relating to this statement is set out in Appendix II to this prospectus.

Notes:

1. This represents the estimated net proceeds from the Placing of new Shares which are based on the issue of 42,000,000 Shares at HK$0.80 per Share and HK$0.96 per Share respectively, after deduction of the underwriting fees and other related expenses payable by the Company.

2. The proforma adjusted net tangible assets per Share is arrived at based on 168,000,000 Shares in issue immediately after the Placing.

3. Based on an independent valuation performed by Grant Sherman Appraisal Limited, the market value of the property interest held by the Group as at 31 July 2005 was HK$11,820,000 which was approximately HK$4,520,000 higher than the unaudited net book value of these properties as at 31 July 2005 of approximately HK$7,300,000. It is the Group's accounting policy to state these properties at cost less accumulated depreciation and impairment losses, if any, and the effect of revaluation will not be incorporated in the Group's accounts. Also, such revaluation surplus of approximately HK$4,520,000 has not been adjusted in the above unaudited pro forma net tangible assets and unaudited pro forma net tangible assets per Share. Should such revaluation surplus be taken into account, an additional depreciation charge of approximately HK$226,000 per annum would be incurred.

4. The Group's land use rights situated in the PRC under medium term leases of 50 years expiring in 2043 are considered as tangible assets as the Group has paid the consideration for occupying the land specified under the land use rights for the terms stated above.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that they have performed sufficient due diligence on the Group to ensure that there has been no material adverse change in the financial position or prospect of the Group since 30 June 2005 (being the date to which the latest audited financial statement of the Group were made up).