

The following is the text of a report, prepared for the purpose of incorporation in this prospectus received from the auditors and reporting accountants of the Company, RSM Nelson Wheeler, Certified Public Accountants, Hong Kong.

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

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5 October 2005

The Directors

JF Household Furnishings Limited

Deloitte & Touche Corporate Finance Limited

Dear Sirs

We set out below our report on the financial information regarding JF Household Furnishings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the two years ended 31 December 2003 and 2004 and for the six months ended 30 June 2005 (the “Relevant Periods”) prepared on the basis set out in note 1 of Section II below, for inclusion in the prospectus of the Company dated 5 October 2005 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 19 January 2005 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation, further details of which are set out in the paragraph headed “Corporate reorganisation” in the section headed “Further information about the Company” in Appendix V to the Prospectus (“Corporate Reorganisation”), the Company became the holding company of the subsidiaries as set out below:

| Company | Place and date of incorporation/ establishment | Attributable interest | Issued and fully paid capital/ registered capital | Principal activities |
|--|--|-----------------------|---|----------------------|
| <i>Directly held</i> | | | | |
| JF Household Furnishings (Asia) Ltd. (“JF Asia”) | British Virgin Islands 21 October 2004 | 100% | Ordinary shares US\$300 | Investment holding |
| <i>Indirectly held</i> | | | | |
| JF Household Furnishings (BVI) Ltd. (“JF BVI”) | British Virgin Islands 21 October 2004 | 100% | Ordinary shares US\$100 | Investment holding |

| Company | Place and date of incorporation/ establishment | Attributable interest | Issued and fully paid capital/ registered capital | Principal activities |
|---|---|-----------------------|---|---|
| Keylink Technology Limited ("Keylink") | British Virgin Islands 9 August 2004 | 100% | Ordinary shares US\$100 | Investment holding |
| JF Household Furnishings (Macau) Holdings Ltd. ("JF Macau Holdings") | British Virgin Islands 7 December 2004 | 100% | Ordinary shares US\$100 | Investment holding |
| 寧波捷豐家居用品有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.) ("JF Ningbo") | People's Republic of China 30 December 1992 | 100% | Registered capital US\$1,000,000 | Manufacturing and sale of furnishings and home products and accessories |
| 寧波捷豐金屬製品有限公司 (Ningbo JF Metal Products Co., Ltd.) ("JF Metal") | People's Republic of China 8 July 2003 | 100% | Registered capital US\$140,000 | Manufacturing and processing of stainless steel rods and other accessories |

All companies now comprising the Group have adopted 31 December as their financial year end date.

No audited financial statements have been prepared by the Company, JF Asia, JF BVI, Keylink and JF Macau Holdings since their incorporation as they have not carried on any business, other than the Corporate Reorganisation referred to in Appendix V to the Prospectus. We have, however, reviewed all the relevant transactions of these companies for the period since their date of incorporation to the date of this report, and carried out such procedures, as we considered necessary for the inclusion of financial information relating to these companies in this report.

The financial statements of JF Ningbo and JF Metal, the Company's subsidiaries established in the People's Republic of China (the "PRC"), for the two years ended 31 December 2003 and 2004 were audited by 餘姚永信會計師事務所 (Yuyao Yongxin Certified Public Accountants). These financial statements were prepared in accordance with accounting principles and financial regulations applicable to enterprises established in the PRC. We have performed independent audit procedures in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") on the financial statements of JF Ningbo and JF Metal for the two years ended 31 December 2003 and 2004 for the purpose of determining the adjustments necessary to comply with the accounting principles generally accepted in Hong Kong, for inclusion in the combined financial statements of the Group for the Relevant Periods.

We have examined the audited financial statements or, where appropriate, the management accounts of all the companies now comprising the Group for the Relevant Periods, or from the respective dates of their incorporation where this is a shorter period, and have carried out such additional procedures as we considered necessary, in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The financial information as set out in Sections I to V ("Financial Information") has been prepared based on the audited financial statements or, where appropriate, unaudited management accounts of all companies now comprising the Group, on the basis set out in note 1 of Section II below, after making such adjustments as are appropriate. The directors of the respective companies now comprising the Group during the Relevant Periods are responsible for preparing the financial statements of these companies, which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the Company are also responsible for the preparation of the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in note 1 of Section II below, gives a true and fair view of the combined state of affairs of the Group as at 31 December 2003 and 2004 and 30 June 2005 and of the combined results and cash flows of the Group for the Relevant Periods.

The comparative combined financial information of the Group for the six months ended 30 June 2004 has been extracted from the Group's unaudited combined financial information for the same period (the "30 June 2004 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We have reviewed the 30 June 2004 Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. Our review consisted principally of making enquiries of Group management and applying analytical procedures to the combined financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the 30 June 2004 Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the 30 June 2004 Financial Information.

I. COMBINED FINANCIAL STATEMENTS

Combined income statements

| | <i>Section II</i> <i>Note</i> | Year ended 31 December | | For the six months ended 30 June | |
|--|----------------------------------|------------------------|----------------------|---|---------------------|
| | | 2003 <i>HK\$</i> | 2004 <i>HK\$</i> | 2004 <i>HK\$</i> <i>(unaudited)</i> | 2005 <i>HK\$</i> |
| Turnover | 3 | 84,087,159 | 152,459,445 | 68,597,208 | 94,792,451 |
| Cost of sales | | <u>(64,024,530)</u> | <u>(122,790,746)</u> | <u>(56,264,037)</u> | <u>(76,922,222)</u> |
| Gross profit | | 20,062,629 | 29,668,699 | 12,333,171 | 17,870,229 |
| Other revenue | 3 | 32,083 | 64,086 | 30,287 | 12,186 |
| Other income | | 491,156 | 326,068 | 83,194 | 532,265 |
| Selling and distribution costs | | <u>(2,353,259)</u> | <u>(1,008,822)</u> | <u>(568,114)</u> | <u>(653,290)</u> |
| Administrative expenses | | <u>(2,379,214)</u> | <u>(5,894,030)</u> | <u>(1,262,827)</u> | <u>(3,499,694)</u> |
| Profit from operations | 4 | 15,853,395 | 23,156,001 | 10,615,711 | 14,261,696 |
| Finance costs | 5 | <u>(425,210)</u> | <u>(1,199,672)</u> | <u>(480,459)</u> | <u>(587,529)</u> |
| Profit before taxation | | 15,428,185 | 21,956,329 | 10,135,252 | 13,674,167 |
| Taxation | 6(a) | <u>(2,041,223)</u> | <u>(3,079,425)</u> | <u>(1,324,269)</u> | <u>(1,745,743)</u> |
| Profit attributable to the equity holders of the Company | | <u>13,386,962</u> | <u>18,876,904</u> | <u>8,810,983</u> | <u>11,928,424</u> |
| Profit distributions/ Dividend | 7 | <u>11,016,527</u> | <u>4,530,457</u> | <u>—</u> | <u>—</u> |
| Earnings per share | 8 | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

Combined balance sheets

| | | At 31 December | | At 30 June |
|--------------------------------|------------|-------------------|-------------------|-------------------|
| | Section II | 2003 | 2004 | 2005 |
| | Note | HK\$ | HK\$ | HK\$ |
| NON-CURRENT ASSETS | | | | |
| Property, plant and equipment | 11 | 7,450,815 | 9,587,996 | 11,357,974 |
| Land use rights | 12 | <u>1,088,708</u> | <u>1,062,767</u> | <u>1,048,809</u> |
| | | <u>8,539,523</u> | <u>10,650,763</u> | <u>12,406,783</u> |
| CURRENT ASSETS | | | | |
| Inventories | 13 | 19,070,212 | 28,062,057 | 36,862,620 |
| Trade receivables | 14 | 12,285,002 | 18,897,027 | 28,100,072 |
| Deposits and other receivables | 15 | 7,262,901 | 11,417,575 | 11,040,446 |
| Due from directors | 16 | 1,351,838 | 1,560 | — |
| Due from related companies | 17 | 4,161,329 | 2,850 | 25,252 |
| Pledged bank deposit | | — | 3,123,264 | — |
| Bank and cash balances | 18 | <u>10,838,377</u> | <u>12,639,736</u> | <u>6,235,544</u> |
| | | 54,969,659 | 74,144,069 | 82,263,934 |
| CURRENT LIABILITIES | | | | |
| Bills payable | | — | 1,150,970 | 7,536,677 |
| Trade payables | 19 | 7,707,669 | 12,561,075 | 16,450,171 |
| Deposit received | | — | 1,803,208 | — |
| Other payables and accruals | 20 | 8,488,797 | 11,599,156 | 10,557,295 |
| Dividends payable | | 12,755,054 | 5,895,178 | 5,895,178 |
| Due to directors | 21 | — | 491,974 | 580,440 |
| Due to related companies | 17 | 6,409,358 | 1,450,818 | 16,500 |
| Provision for taxation | 6(b) | 1,337,138 | 1,616,241 | 836,140 |
| Bank borrowings | 22 | <u>15,855,319</u> | <u>22,922,358</u> | <u>15,566,038</u> |
| | | <u>52,553,335</u> | <u>59,490,978</u> | <u>57,438,439</u> |
| NET CURRENT ASSETS | | <u>2,416,324</u> | <u>14,653,091</u> | <u>24,825,495</u> |
| NET ASSETS | | <u>10,955,847</u> | <u>25,303,854</u> | <u>37,232,278</u> |
| CAPITAL AND RESERVES | | | | |
| Paid-in capital | 23 | 7,356,522 | 7,358,082 | 7,358,082 |
| Reserves | | <u>3,599,325</u> | <u>17,945,772</u> | <u>29,874,196</u> |
| | | <u>10,955,847</u> | <u>25,303,854</u> | <u>37,232,278</u> |

Combined cash flow statements

| | Year ended 31 December | | For the six months ended 30 June | | |
|---|------------------------|--------------|----------------------------------|--------------------|-------------|
| | <i>Section II</i> | 2003 | 2004 | 2004 | 2005 |
| | <i>Note</i> | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | | <i>(unaudited)</i> | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Profit before taxation | | 15,428,185 | 21,956,329 | 10,135,252 | 13,674,167 |
| Adjustments for: | | | | | |
| Depreciation of property, plant and equipment | | 738,509 | 663,687 | 360,552 | 386,468 |
| Amortisation of land use rights | | 27,915 | 25,941 | 11,855 | 13,958 |
| Write off of construction in progress | | — | 38,255 | — | — |
| Loss on disposal of property, plant and equipment | | 16,632 | — | — | 22,589 |
| Interest expenses | | 425,210 | 1,199,672 | 480,459 | 587,529 |
| Interest income | | (32,083) | (64,086) | (30,287) | (12,186) |
| Operating profit before working capital changes | | 16,604,368 | 23,819,798 | 10,957,831 | 14,672,525 |
| Increase in inventories | | (10,046,917) | (8,991,845) | (2,083,008) | (8,800,563) |
| Increase in trade receivables | | (5,170,091) | (6,612,025) | (5,945,466) | (9,203,045) |
| (Increase)/Decrease in deposits and other receivables | | (770,694) | (4,154,674) | 1,423,807 | 377,129 |
| Increase/(Decrease) in trade payables | | 4,866,641 | 4,853,406 | (414,918) | 3,889,096 |
| Increase/(Decrease) in deposit received | | — | 1,803,208 | — | (1,803,208) |
| Increase/(Decrease) in amounts due to related companies | | 843,266 | (245,306) | 672,542 | (832,849) |
| Increase in bills payable | | — | 1,150,970 | 1,889,631 | 6,385,707 |
| Increase/(Decrease) in other payables and accruals | | 4,785,097 | 3,110,359 | (2,533,442) | (1,041,861) |
| Cash generated from operations | | 11,111,670 | 14,733,891 | 3,966,977 | 3,642,931 |
| Interest paid | | (425,210) | (1,199,672) | (480,459) | (587,529) |
| Enterprise income tax paid | | (704,085) | (2,800,322) | (1,779,888) | (2,525,844) |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | | 9,982,375 | 10,733,897 | 1,706,630 | 529,558 |

| | Year ended 31 December | | For the six months ended 30 June | | |
|--|------------------------|-------------------|----------------------------------|-------------------|-------------------|
| | Section II Note | 2003 HK\$ | 2004 HK\$ | 2004 HK\$ | 2005 HK\$ |
| <i>(unaudited)</i> | | | | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchase of property, plant and equipment | | (2,391,609) | (5,529,048) | (2,345,721) | (2,226,205) |
| (Increase)/Decrease in pledged bank deposit | | — | (3,123,264) | — | 3,123,264 |
| Sale proceeds from disposal of property, plant and equipment | | — | 2,689,925 | — | 47,170 |
| Decrease/(Increase) in amounts due from related companies | | 3,676,198 | 4,158,479 | (235,096) | (22,402) |
| Increase/(Decrease) in amounts due to related companies | | — | 601,469 | — | (601,469) |
| (Increase)/Decrease in amounts due from directors | | (1,351,838) | 1,350,278 | 1,204,623 | 1,560 |
| Increase in amounts due to directors | | — | 491,974 | — | 88,466 |
| Interest received | | 32,083 | 64,086 | 30,287 | 12,186 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES | | (35,166) | 703,899 | (1,345,907) | 422,570 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issue of shares | | — | 1,560 | — | — |
| Net cash inflow from/(outflow to) bank borrowings | 24 | 7,860,334 | 7,067,039 | (1,924,510) | (7,356,320) |
| Increase/(Decrease) in amounts due to related companies | | 3,663,759 | (5,314,703) | (259,680) | — |
| Decrease in amounts due to directors | | (28,311) | — | — | — |
| Profit distributions | | (15,771,808) | (11,390,333) | (1,434,367) | — |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| 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 EQUIVALENTS | | | | | |
| | | 5,671,183 | 1,801,359 | (3,257,834) | (6,404,192) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR/PERIOD | | | | | |
| | | <u>5,167,194</u> | <u>10,838,377</u> | <u>10,838,377</u> | <u>12,639,736</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | | | | | |
| | | <u>10,838,377</u> | <u>12,639,736</u> | <u>7,580,543</u> | <u>6,235,544</u> |
| ANALYSIS OF CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD | | | | | |
| Bank and cash balances | | <u>10,838,377</u> | <u>12,639,736</u> | <u>7,580,543</u> | <u>6,235,544</u> |

Combined statements of changes in equity

| | Paid-in capital <i>HK\$</i> | Capital reserve <i>(Note 1)</i> <i>HK\$</i> | General reserve <i>(Note 2)</i> <i>HK\$</i> | Retained profits <i>HK\$</i> | Total <i>HK\$</i> |
|-------------------------------|---|--|--|--|-----------------------------|
| At 1 January 2003 | 7,356,522 | — | 1,974,288 | (745,398) | 8,585,412 |
| Profit for the year | — | — | — | 13,386,962 | 13,386,962 |
| Transfers | — | — | 1,394,970 | (1,394,970) | — |
| Profit distributions | — | — | — | (11,016,527) | (11,016,527) |
| At 31 December 2003 | <u>7,356,522</u> | <u>—</u> | <u>3,369,258</u> | <u>230,067</u> | <u>10,955,847</u> |
| At 1 January 2004 | 7,356,522 | — | 3,369,258 | 230,067 | 10,955,847 |
| Proceeds from issue of shares | 1,560 | — | — | — | 1,560 |
| Profit for the year | — | — | — | 18,876,904 | 18,876,904 |
| Transfers | — | 131,901 | 1,969,197 | (2,101,098) | — |
| Dividend | — | — | — | (4,530,457) | (4,530,457) |
| At 31 December 2004 | <u>7,358,082</u> | <u>131,901</u> | <u>5,338,455</u> | <u>12,475,416</u> | <u>25,303,854</u> |
| At 1 January 2005 | 7,358,082 | 131,901 | 5,338,455 | 12,475,416 | 25,303,854 |
| Profit for the period | — | — | — | 11,928,424 | 11,928,424 |
| At 30 June 2005 | <u>7,358,082</u> | <u>131,901</u> | <u>5,338,455</u> | <u>24,403,840</u> | <u>37,232,278</u> |
| At 1 January 2004 | 7,356,522 | — | 3,369,258 | 230,067 | 10,955,847 |
| Profit for the period | — | — | — | 8,810,983 | 8,810,983 |
| At 30 June 2004 (unaudited) | <u>7,356,522</u> | <u>—</u> | <u>3,369,258</u> | <u>9,041,050</u> | <u>19,766,830</u> |

Note:

1. This represents the transfer from retained profits to capital reserve as a result of the write off of certain trade payables by JF Ningbo, a subsidiary of the Company. Pursuant to the PRC accounting principles and financial regulations, any gains arising from debt restructuring which represent the difference between the final settlement and the carrying value of the debt concerned are directly reflected in capital reserve and therefore not distributable. Accordingly, a transfer has been made from retained profits to capital reserve. The capital reserve can only be used to increase capital of the subsidiary.
2. The general reserve is set up by a subsidiary, JF Ningbo, established and operated in the PRC by way of appropriation from the profit after taxation in accordance with the relevant laws and regulations in the PRC. The rate of appropriation to the general reserve is subject to the decision of the board of directors of JF Ningbo, but the minimum appropriation rate is 10% of the profit after taxation for each year, until when the accumulated balance reaches 50% of its registered capital. Pursuant to the relevant laws and regulations of the PRC, if approvals are obtained from the relevant government authorities, the general reserve can be used in setting off accumulated losses or to increase the capital.

II. NOTES TO THE COMBINED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

For the purpose of this report the combined income statements, combined cash flow statements and combined statements of changes in equity of the Group for the Relevant Periods include the financial information of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation, where this is a shorter period.

The combined balance sheets of the Group as at 31 December 2003 and 2004 and 30 June 2005 have been prepared to present the assets and liabilities of the Group as at these dates as if the current group structure had been in existence at these dates.

All material intra-group transactions and balances have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information have been prepared in accordance with accounting principles generally accepted in Hong Kong and Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA. The Financial Information have been prepared under the historical cost convention.

The HKICPA has 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 or available for early adoption 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 Information for the Relevant Periods.

The preparation of Financial Information in conformity with new HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

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.

The principal accounting policies adopted by the Group in arriving at the Financial Information set out in this report, which conform to accounting principles generally accepted in Hong Kong, are as follows:

(a) Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably.

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the title has passed.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(b) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

(c) Property, plant and equipment

Property, plant and equipment other than construction in progress (see note (2)(e) below) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis to write off the cost of each asset over its estimated useful life less any estimated residual value. The estimated useful lives used for this purpose are as follows:

| | |
|-----------------------------------|----------|
| Buildings | 20 years |
| Plant and machinery | 10 years |
| Furniture, fixtures and equipment | 5 years |
| Motor vehicles | 5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal of an asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

Major costs incurred in restoring an asset to its normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(d) Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. Land use rights are amortised on a straight-line basis over the lease terms.

(e) Construction in progress

Construction in progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the costs of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in note 2(c).

(f) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The carrying amounts of assets are reviewed at each balance sheet date to assess whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the income statement.

(g) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(i) Foreign currency translation

Companies within the Group maintain their books and records in the primary currencies of their respective operations (“functional currencies”). Transactions in other currencies are translated into their functional currencies at the rates of exchange ruling on the transaction dates. Monetary assets and liabilities in other currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

The Financial Information is presented in Hong Kong dollars (“HK\$”). The directors of the Company believe that using HK\$ as the Group’s reporting currency will enable financial results and relationships to be measured with more relevance and reliability.

For the purpose of combination, all of the assets and liabilities of subsidiaries with functional currencies other than HK\$ are translated into HK\$ at the rates of exchange ruling at the balance sheet date whilst income and expense items are translated at average rates during the year. Exchange differences are dealt with as movements in reserves.

(j) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group has become a party to the contractual provisions of the instrument.

Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset’s carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents

Cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. For the purpose of the cash flow statement, bank overdrafts which are repayable on demand and form an integral part of an enterprise’s cash management are also included as a component of cash and cash equivalents.

(l) Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade and other payables

Trade and other payables are stated at their fair value and subsequently measured at amortised cost using the effective interest method.

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premium payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Staff retirement benefits

The cost of staff retirement benefits are recognised as an expense in the income statement as and when incurred.

(n) Taxation

The charge for taxation is based on the results for the Relevant Periods as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred taxation is charged or credited to the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred taxation is also dealt with in equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the income statement in the year in which they are incurred.

(p) **Government grants**

A government grant is recognised, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the income statement over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

(q) **Events after the balance sheet date**

Post-year-end events that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

(r) **Discontinuing operations**

A discontinuing operation is a clearly distinguishable component of the Group's business that is disposed of or abandoned pursuant to a single plan, and which represents a separate major line of business or geographical area of operations.

(s) **Segment reporting**

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of property, plant and equipment, inventories and receivables; and mainly exclude cash and cash equivalents which are included as corporate assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings which are included as corporate liabilities. Capital expenditure comprises additions to property, plant and equipment.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in manufacturing and sale of furnishings and home products. Revenue recognised during the Relevant Periods are as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|-------------------|------------------------|--------------------|----------------------------------|-------------------|
| | 2003 HK\$ | 2004 HK\$ | 2004 HK\$ | 2005 HK\$ |
| Turnover | | | | |
| - Sales of goods | 84,087,159 | 152,459,445 | 68,597,208 | 94,792,451 |
| Other revenue | | | | |
| - Interest income | <u>32,083</u> | <u>64,086</u> | <u>30,287</u> | <u>12,186</u> |
| Total revenue | <u>84,119,242</u> | <u>152,523,531</u> | <u>68,627,495</u> | <u>94,804,637</u> |

Segmental information

For management purposes, the Group is currently organised into two divisions — furnishings and home products and heat exchangers. These divisions are the bases on which the Group reports its primary segment information.

In determining the Group's geographical segments, revenues are attributable to the segments based on the location of customers.

Business segments

An analysis of the Group's revenue, results and segment assets and liabilities for the Relevant Periods by product is as follows:

For the year ended 31 December 2003

| | Furnishings and home products <i>HK\$</i> | Heat exchangers <i>HK\$</i> | Total <i>HK\$</i> |
|---|---|---|-----------------------------|
| Revenue | | | |
| Sales | 72,239,114 | 11,848,045 | 84,087,159 |
| Other income | <u>491,156</u> | <u>—</u> | <u>491,156</u> |
| Total | <u><u>72,730,270</u></u> | <u><u>11,848,045</u></u> | <u><u>84,578,315</u></u> |
| Results | | | |
| Segment results | <u><u>11,842,846</u></u> | <u><u>3,978,466</u></u> | 15,821,312 |
| Interest income | | | 32,083 |
| Finance costs | | | <u>(425,210)</u> |
| Profit before taxation | | | 15,428,185 |
| Taxation | | | <u>(2,041,223)</u> |
| Profit attributable to the equity holders of the Company | | | <u><u>13,386,962</u></u> |
| Assets | | | |
| Segment assets | <u><u>37,261,046</u></u> | <u><u>9,896,592</u></u> | 47,157,638 |
| Unallocated corporate assets | | | <u>16,351,544</u> |
| Total assets | | | <u><u>63,509,182</u></u> |
| Liabilities | | | |
| Segment liabilities | <u><u>9,704,526</u></u> | <u><u>6,491,939</u></u> | 16,196,465 |
| Unallocated corporate liabilities | | | <u>36,356,870</u> |
| Total liabilities | | | <u><u>52,553,335</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>2,349,156</u></u> | <u><u>42,453</u></u> | <u><u>2,391,609</u></u> |
| Depreciation and amortisation | <u><u>223,315</u></u> | <u><u>543,109</u></u> | <u><u>766,424</u></u> |

For the year ended 31 December 2004

| | Furnishings and home products | Heat exchangers | Total |
|---|--|----------------------------|--------------------|
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Revenue | | | |
| Sales | 145,431,977 | 7,027,468 | 152,459,445 |
| Other income | <u>326,068</u> | <u>—</u> | <u>326,068</u> |
| Total | <u>145,758,045</u> | <u>7,027,468</u> | <u>152,785,513</u> |
| Results | | | |
| Segment results | <u>25,842,999</u> | <u>(584)</u> | 25,842,415 |
| Interest income | | | 64,086 |
| Unallocated corporate expenses | | | (2,750,500) |
| Finance costs | | | <u>(1,199,672)</u> |
| Profit before taxation | | | 21,956,329 |
| Taxation | | | <u>(3,079,425)</u> |
| Profit attributable to the equity holders of the Company | | | <u>18,876,904</u> |
| Assets | | | |
| Segment assets | <u>66,738,261</u> | <u>—</u> | 66,738,261 |
| Unallocated corporate assets | | | <u>18,056,571</u> |
| Total assets | | | <u>84,794,832</u> |
| Liabilities | | | |
| Segment liabilities | <u>20,510,653</u> | <u>—</u> | 20,510,653 |
| Unallocated corporate liabilities | | | <u>38,980,325</u> |
| Total liabilities | | | <u>59,490,978</u> |
| Other information | | | |
| Capital expenditure | <u>5,529,048</u> | <u>—</u> | <u>5,529,048</u> |
| Depreciation and amortisation | <u>482,015</u> | <u>207,613</u> | <u>689,628</u> |

For six months ended 30 June 2004 (unaudited)

| | Furnishings and home products | Heat exchangers | Total |
|---|--|----------------------------|--------------------------|
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Revenue | | | |
| Sales | 61,569,740 | 7,027,468 | 68,597,208 |
| Other income | <u>83,194</u> | <u>—</u> | <u>83,194</u> |
| Total | <u><u>61,652,934</u></u> | <u><u>7,027,468</u></u> | <u><u>68,680,402</u></u> |
| Results | | | |
| Segment results | <u><u>10,586,008</u></u> | <u><u>(584)</u></u> | 10,585,424 |
| Interest income | | | 30,287 |
| Finance costs | | | <u>(480,459)</u> |
| Profit before taxation | | | 10,135,252 |
| Taxation | | | <u>(1,324,269)</u> |
| Profit attributable to the equity holders of the Company | | | <u><u>8,810,983</u></u> |
| Assets | | | |
| Segment assets | <u><u>48,154,045</u></u> | <u><u>6,313,326</u></u> | 54,467,371 |
| Unallocated corporate assets | | | <u>13,392,431</u> |
| Total assets | | | <u><u>67,859,802</u></u> |
| Liabilities | | | |
| Segment liabilities | <u><u>12,195,567</u></u> | <u><u>2,436,821</u></u> | 14,632,388 |
| Unallocated corporate liabilities | | | <u>33,460,584</u> |
| Total liabilities | | | <u><u>48,092,972</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>2,345,751</u></u> | <u><u>—</u></u> | <u><u>2,345,751</u></u> |
| Depreciation and amortisation | <u><u>164,794</u></u> | <u><u>207,613</u></u> | <u><u>372,407</u></u> |

For the six months ended 30 June 2005

| | Furnishings and home products |
|--|--|
| | <i>HK\$</i> |
| Revenue | |
| Sales | 94,792,451 |
| Other income | <u>532,265</u> |
| Total | <u><u>95,324,716</u></u> |
| Result | |
| Segment result | 15,785,426 |
| Interest income | 12,186 |
| Unallocated corporate expenses | (1,535,916) |
| Finance costs | <u>(587,529)</u> |
| Profit before taxation | 13,674,167 |
| Taxation | <u>(1,745,743)</u> |
| Profit attributable to the equity holders of the Company | <u><u>11,928,424</u></u> |
| Assets | |
| Segment assets | 84,161,598 |
| Unallocated corporate assets | <u>10,509,119</u> |
| Total assets | <u><u>94,670,717</u></u> |
| Liabilities | |
| Segment liabilities | 27,858,598 |
| Unallocated corporate liabilities | <u>29,579,841</u> |
| Total liabilities | <u><u>57,438,439</u></u> |
| Other information | |
| Capital expenditure | <u><u>2,226,205</u></u> |
| Depreciation and amortisation | <u><u>400,426</u></u> |

Geographical segments

An analysis of the Group's revenue and segment assets for the Relevant Periods by geographical location is as follows:

For the year ended 31 December 2003

| | PRC <i>HK\$</i> | Hong Kong <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------------|---------------------------|---------------------------------|-----------------------------|
| Revenue | | | |
| Sales | 14,591,256 | 69,495,903 | 84,087,159 |
| Other income | <u>491,156</u> | <u>—</u> | <u>491,156</u> |
| Total | <u><u>15,082,412</u></u> | <u><u>69,495,903</u></u> | <u><u>84,578,315</u></u> |
| Assets | | | |
| Segment assets | <u><u>55,156,639</u></u> | <u><u>8,352,543</u></u> | <u><u>63,509,182</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>2,391,609</u></u> | <u><u>—</u></u> | <u><u>2,391,609</u></u> |

For the year ended 31 December 2004

| | PRC <i>HK\$</i> | Hong Kong <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------------|---------------------------|---------------------------------|-----------------------------|
| Revenue | | | |
| Sales | 27,645,277 | 124,814,168 | 152,459,445 |
| Other income | <u>326,068</u> | <u>—</u> | <u>326,068</u> |
| Total | <u><u>27,971,345</u></u> | <u><u>124,814,168</u></u> | <u><u>152,785,513</u></u> |
| Assets | | | |
| Segment assets | <u><u>74,258,626</u></u> | <u><u>10,536,206</u></u> | <u><u>84,794,832</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>5,529,048</u></u> | <u><u>—</u></u> | <u><u>5,529,048</u></u> |

For the six months ended 30 June 2004 (unaudited)

| | PRC <i>HK\$</i> | Hong Kong <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------------|---------------------------|---------------------------------|-----------------------------|
| Revenue | | | |
| Sales | 10,055,092 | 58,542,116 | 68,597,208 |
| Other income | <u>83,194</u> | <u>—</u> | <u>83,194</u> |
| Total | <u><u>10,138,286</u></u> | <u><u>58,542,116</u></u> | <u><u>68,680,402</u></u> |
| Assets | | | |
| Segment assets | <u><u>54,801,874</u></u> | <u><u>13,057,928</u></u> | <u><u>67,859,802</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>2,345,751</u></u> | <u><u>—</u></u> | <u><u>2,345,751</u></u> |

For the six months ended 30 June 2005

| | PRC <i>HK\$</i> | Hong Kong <i>HK\$</i> | Total <i>HK\$</i> |
|--------------------------|---------------------------|---------------------------------|-----------------------------|
| Revenue | | | |
| Sales | 9,087,122 | 85,705,329 | 94,792,451 |
| Other income | <u>532,265</u> | <u>—</u> | <u>532,265</u> |
| Total | <u><u>9,619,387</u></u> | <u><u>85,705,329</u></u> | <u><u>95,324,716</u></u> |
| Assets | | | |
| Segment assets | <u><u>70,812,743</u></u> | <u><u>23,857,974</u></u> | <u><u>94,670,717</u></u> |
| Other information | | | |
| Capital expenditure | <u><u>2,226,205</u></u> | <u><u>—</u></u> | <u><u>2,226,205</u></u> |

4. PROFIT FROM OPERATIONS

Profit from operations is stated after charging the following:

| | Year ended 31 December | | For the six months ended 30 June | |
|--|------------------------|------------|----------------------------------|-----------|
| | 2003 | 2004 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | <i>(unaudited)</i> | |
| Auditors' remuneration | 7,264 | 9,434 | — | — |
| Depreciation and amortisation | 766,424 | 689,628 | 372,407 | 400,426 |
| Loss on disposal of property, plant and equipment | 16,632 | — | — | 22,589 |
| Staff costs (including directors' emoluments (note 10)) | | | | |
| Fees | — | — | — | 81,771 |
| Basic salaries, bonuses, allowances and benefits in kind | 6,039,611 | 10,392,412 | 3,454,963 | 6,177,160 |
| Retirement benefits scheme contributions (Note) | 70,352 | 197,922 | 49,875 | 760,254 |
| Net exchange losses | 28,155 | 160,143 | 103,872 | 79,969 |

Note:

According to the Mandatory Provident Fund ("MPF") legislation regulated by the Mandatory Provident Fund Schemes Authority in Hong Kong, with effect from 1 December 2000 the Group is required to participate in MPF Scheme operated by approved trustees in Hong Kong and to make contributions for its eligible employees. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution is limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation.

Employees of the Group in the PRC participate in a retirement benefit plan (社會保險基金) under which the Group is obliged to make monthly defined contributions to the plan at 20% of the employee's basic salary during the Relevant Periods.

5. FINANCE COSTS

| | Year ended 31 December | | For the six months ended 30 June | |
|--|------------------------|-----------|----------------------------------|---------|
| | 2003 | 2004 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | <i>(unaudited)</i> | |
| Interest on bank loans and overdrafts wholly repayable within five years | 425,210 | 1,199,672 | 480,459 | 587,529 |

6. TAXATION

(a) Taxation in the combined income statements represents:

| | Year ended 31 December | | For the six months ended 30 June | |
|---------------------------|------------------------|------------------|----------------------------------|------------------|
| | 2003 HK\$ | 2004 HK\$ | 2004 HK\$ | 2005 HK\$ |
| | | | <i>(unaudited)</i> | |
| PRC enterprise income tax | <u>2,041,223</u> | <u>3,079,425</u> | <u>1,324,269</u> | <u>1,745,743</u> |

No provision for profits tax in the Cayman Islands or British Virgin Islands has been made as the Group had no income assessable for profits tax for the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, JF Ningbo, a subsidiary of the Company operating in Zhejiang Province, the PRC, is subject to enterprise income tax rate at 26.4% on its taxable profit in accordance with Income Tax Law of People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises. JF Ningbo is entitled to a two-year exemption from enterprise income tax starting from its first profit-making year followed by a 50% reduction for the subsequent three years. JF Ningbo was in its third to fifth profit-making years during the Relevant Periods.

Pursuant to the relevant laws and regulations in the PRC, JF Metal, a subsidiary of the Company operating in Zhejiang Province, the PRC, is subject to enterprise income tax rate at 26.4% on its taxable profit in accordance with Income Tax Law of People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises. JF Metal is entitled to a two-year exemption from enterprise income tax starting from its first profit-making year followed by a 50% reduction for the subsequent three years. JF Metal commenced its business in 2005.

(b) Taxation in the combined balance sheets represents:

| | At 31 December | | At 30 June |
|---|------------------|------------------|----------------|
| | 2003 HK\$ | 2004 HK\$ | 2005 HK\$ |
| Provision for PRC enterprise income tax | <u>1,337,138</u> | <u>1,616,241</u> | <u>836,140</u> |

(c) No provision for deferred taxation has been made in the combined financial statements as the effect of temporary differences is not material to the Group.

- (d) The taxation on the Group's profit before taxation differs from the theoretical amounts that would arise using the taxation rate of the country where the Group principally operates as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|--|------------------------|-------------------|----------------------------------|-------------------|
| | 2003 | 2004 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ | HK\$ |
| | | | <i>(unaudited)</i> | |
| Profit before taxation | <u>15,428,185</u> | <u>21,956,329</u> | <u>10,135,252</u> | <u>13,674,167</u> |
| Tax at statutory tax rate of 33% | 5,091,301 | 7,245,589 | 3,344,633 | 4,512,475 |
| Effect of preferential tax rate | (3,054,780) | (4,347,353) | (2,006,780) | (2,742,089) |
| Tax effect of income that is not taxable in determining taxable profit | (40,103) | (58,275) | (10,048) | (63,819) |
| Tax effect on tax losses not yet recognised | — | 364,236 | — | 224,377 |
| Tax effect of expenses that are not deductible in determining taxable profit | 44,805 | 69,777 | (3,536) | 51,534 |
| Over provision in previous years | — | — | — | (15,923) |
| Tax effect of unrecognised temporary differences | <u>—</u> | <u>(194,549)</u> | <u>—</u> | <u>(220,812)</u> |
| Taxation charge | <u>2,041,223</u> | <u>3,079,425</u> | <u>1,324,269</u> | <u>1,745,743</u> |

7. PROFIT DISTRIBUTIONS/DIVIDEND

No dividend has been paid or declared by the Company since its date of incorporation. Profit distributions/dividend during the Relevant Periods represent profit distributions/dividend made by JF Ningbo and JF (BVI) prior to the completion of the Corporate Reorganisation of the Group.

The rate of dividend per share and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

8. EARNINGS PER SHARE

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Corporate Reorganisation and the preparation of the results for the Relevant Periods on a combined basis as disclosed in note 1 above.

9. DISCONTINUED OPERATIONS

On 1 April 2004 the Group entered into an agreement for the sale of its heat exchanger production line with 寧波美意熱交換器有限公司 (Ningbo Mei Yi Heat Exchanger Co. Ltd.). The Group agreed to sell the heat exchanger production line for a cash consideration of approximately HK\$2,466,196. The sale was completed on 12 July 2004 and control of the production line was effectively transferred to 寧波美意熱交換器有限公司 (Ningbo Mei Yi Heat Exchanger Co. Ltd.) (note 26) on the same day.

The results of the heat exchanger production line for the year ended 31 December 2003 and the six months ended 30 June 2004 are as follows:

| | Year ended 31 December 2003 HK\$ | Six months ended 30 June 2004 HK\$ |
|--|---|---|
| Turnover | 11,848,045 | 7,027,468 |
| Cost of sales | <u>(7,713,126)</u> | <u>(6,440,597)</u> |
| Gross profit | 4,134,919 | 586,871 |
| Other revenue | 2,526 | 584 |
| Selling and distribution costs | (3,295) | (1,278) |
| Administrative expenses | <u>(153,158)</u> | <u>(586,177)</u> |
| Profit from operations | 3,980,992 | — |
| Taxation | <u>(525,491)</u> | <u>—</u> |
| Profit attributable to the equity holders of the Company | <u><u>3,455,501</u></u> | <u><u>—</u></u> |

The analysis of the net assets of the heat exchanger production line as at 31 December 2003 and 30 June 2004 is as follows:

| | At 31 December 2003 HK\$ | At 30 June 2004 HK\$ |
|--------------------------------|---|-------------------------------------|
| Property, plant and equipment | 5,343,249 | 2,689,925 |
| Inventories | 952,812 | 4,338 |
| Trade receivables | 4,516,662 | 3,619,039 |
| Deposits and other receivables | 56,454 | 853 |
| Bank and cash balances | 106,830 | — |
| Trade payables | (771,182) | (2,436,149) |
| Other payables and accruals | (5,720,757) | (1,411,810) |
| Provision for taxation | <u>(399,150)</u> | <u>—</u> |
| | <u><u>4,084,918</u></u> | <u><u>2,466,196</u></u> |

The cash inflows of the heat exchanger production line for the year ended 31 December 2003 and the six months ended 30 June 2004 are as follows:

| | Year ended 31 December 2003 HK\$ | Six months ended 30 June 2004 HK\$ |
|--|---|---|
| Cash inflows from operating activities | 3,691,694 | 665,884 |
| Cash inflows from investing activities | <u>2,526</u> | <u>584</u> |
| | <u>3,694,220</u> | <u>666,468</u> |

10. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

(a) Directors' emoluments

The Company was not incorporated until 19 January 2005. The aggregate amounts of emoluments paid and payable to the directors of the Company in respect of their services rendered for managing the business of the Group during the Relevant Periods are as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|---|------------------------|------------------|-------------------------------------|------------------|
| | 2003 HK\$ | 2004 HK\$ | 2004 HK\$ | 2005 HK\$ |
| | | | <i>(unaudited)</i> | |
| Fees | — | — | — | 81,771 |
| Basic salaries, bonuses, allowances and benefits in kind | 207,925 | 2,070,377 | 10,189 | 1,036,321 |
| Retirement benefits scheme contributions | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |
| | <u>207,925</u> | <u>2,070,377</u> | <u>10,189</u> | <u>1,118,092</u> |

None of the directors of the Company waived any emoluments paid by the companies now comprising the Group during the Relevant Periods.

The number of directors of the Company whose emoluments fell within the following bands are as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|--------------------------------|------------------------|----------|----------------------------------|----------|
| | 2003 | 2004 | 2004 | 2005 |
| | | | <i>(unaudited)</i> | |
| Nil to HK\$1,000,000 | 3 | 2 | 3 | 6 |
| HK\$1,000,001 to HK\$1,500,000 | — | 1 | — | — |
| | <u>3</u> | <u>3</u> | <u>3</u> | <u>6</u> |

| | Year ended 31 December | | For the six months ended 30 June | |
|--|------------------------|-------------|----------------------------------|-------------|
| | 2003 | 2004 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| | | | <i>(unaudited)</i> | |

Emoluments of the executive directors are as follows:

| | | | | |
|------------|----------|-----------|----------|----------|
| Director A | 207,925 | 1,170,377 | 10,189 | 586,321 |
| Director B | — | 550,000 | — | 275,000 |
| Director C | — | 350,000 | — | 175,000 |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

Emoluments of the independent non-executive directors are as follows:

| | | | | |
|------------|----------|----------|----------|----------|
| Director D | — | — | — | 31,450 |
| Director E | — | — | — | 31,450 |
| Director F | — | — | — | 18,871 |
| | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> |

(b) **Five highest paid individuals**

The five highest paid individuals in the Group during the Relevant Periods included one, three and three directors respectively, whose emoluments have been disclosed above. The aggregate amounts of emoluments paid to the remaining highest paid individuals during the Relevant Periods are as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|--|------------------------|----------------|----------------------------------|----------------|
| | 2003 | 2004 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| | | | <i>(unaudited)</i> | |
| Basic salaries, bonuses, allowances and benefits in kind | 462,659 | 740,755 | 39,057 | 421,321 |
| Retirement benefits scheme contributions | 7,112 | 6,043 | 4,309 | 1,716 |
| | <u>469,771</u> | <u>746,798</u> | <u>43,366</u> | <u>423,037</u> |

The number of the remaining highest paid individuals whose emoluments fell within the following band are as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|----------------------|------------------------|----------|----------------------------------|----------|
| | 2003 | 2004 | 2004 <i>(unaudited)</i> | 2005 |
| Nil to HK\$1,000,000 | <u>4</u> | <u>2</u> | <u>4</u> | <u>2</u> |

- (c) During the Relevant Periods, no emoluments have been paid by the companies now comprising the Group to the directors of the Company or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>HK\$</i> | Plant and machinery <i>HK\$</i> | Furniture, fixtures and equipment <i>HK\$</i> | Motor vehicles <i>HK\$</i> | Construction in progress <i>HK\$</i> | Total <i>HK\$</i> |
|---------------------------------|--------------------------|---------------------------------------|--|-------------------------------|--|----------------------|
| Cost | | | | | | |
| At 1 January 2003 | 2,226,937 | 4,654,543 | 10,472 | 117,634 | 48,097 | 7,057,683 |
| Additions | — | 471,179 | 9,717 | 358,330 | 1,552,383 | 2,391,609 |
| Transfers | 482,059 | — | — | — | (482,059) | — |
| Reclassification | — | (115,748) | 53,061 | 62,687 | — | — |
| Disposals | — | (17,578) | (1,509) | — | — | (19,087) |
| At 31 December 2003 | 2,708,996 | 4,992,396 | 71,741 | 538,651 | 1,118,421 | 9,430,205 |
| Additions | — | 1,692,927 | 151,470 | 441,776 | 3,242,875 | 5,529,048 |
| Transfers | 4,323,041 | — | — | — | (4,323,041) | — |
| Disposals/written off | — | (4,164,045) | (10,472) | (117,635) | (38,255) | (4,330,407) |
| At 31 December 2004 | 7,032,037 | 2,521,278 | 212,739 | 862,792 | — | 10,628,846 |
| Additions | — | 1,512,745 | 59,716 | — | 653,744 | 2,226,205 |
| Disposals | — | — | — | (88,302) | — | (88,302) |
| At 30 June 2005 | 7,032,037 | 4,034,023 | 272,455 | 774,490 | 653,744 | 12,766,749 |
| Accumulated depreciation | | | | | | |
| At 1 January 2003 | 279,333 | 961,490 | 2,513 | — | — | 1,243,336 |
| Charge for the year | 108,182 | 561,876 | 10,673 | 57,778 | — | 738,509 |
| Reclassification | — | (33,588) | 12,419 | 21,169 | — | — |
| Disposals | — | (1,730) | (725) | — | — | (2,455) |
| At 31 December 2003 | 387,515 | 1,488,048 | 24,880 | 78,947 | — | 1,979,390 |
| Charge for the year | 206,145 | 331,574 | 21,034 | 104,934 | — | 663,687 |
| Disposals | — | (1,597,044) | (5,183) | — | — | (1,602,227) |
| At 31 December 2004 | 593,660 | 222,578 | 40,731 | 183,881 | — | 1,040,850 |
| Charge for the period | 158,348 | 130,938 | 22,180 | 75,002 | — | 386,468 |
| Disposals | — | — | — | (18,543) | — | (18,543) |
| At 30 June 2005 | 752,008 | 353,516 | 62,911 | 240,340 | — | 1,408,775 |
| Net book value | | | | | | |
| At 31 December 2003 | <u>2,321,481</u> | <u>3,504,348</u> | <u>46,861</u> | <u>459,704</u> | <u>1,118,421</u> | <u>7,450,815</u> |
| At 31 December 2004 | <u>6,438,377</u> | <u>2,298,700</u> | <u>172,008</u> | <u>678,911</u> | <u>—</u> | <u>9,587,996</u> |
| At 30 June 2005 | <u>6,280,029</u> | <u>3,680,507</u> | <u>209,544</u> | <u>534,150</u> | <u>653,744</u> | <u>11,357,974</u> |

Certain of the Group's buildings are situated in the PRC and pledged as security to a bank for the Group's banking facilities (note 22).

12. LAND USE RIGHTS

| | <i>HK\$</i> |
|--|------------------|
| Cost | |
| At 1 January 2003, 31 December 2003, 31 December 2004 and 30 June 2005 | <u>1,395,780</u> |
| Accumulated amortisation | |
| At 1 January 2003 | 279,157 |
| Charge for the year | <u>27,915</u> |
| At 31 December 2003 | 307,072 |
| Charge for the year | <u>25,941</u> |
| At 31 December 2004 | 333,013 |
| Charge for the period | <u>13,958</u> |
| At 30 June 2005 | <u>346,971</u> |
| Net book value | |
| At 31 December 2003 | <u>1,088,708</u> |
| At 31 December 2004 | <u>1,062,767</u> |
| At 30 June 2005 | <u>1,048,809</u> |

The Group's land use rights are situated in the PRC under medium term leases of 50 years expiring in 2043 and pledged as security to a bank for the Group's banking facilities (note 22).

13. INVENTORIES

| | At 31 December | | As 30 June |
|------------------|-----------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Raw materials | 11,218,032 | 17,242,376 | 27,222,717 |
| Work in progress | 6,336,332 | 9,568,322 | 7,479,398 |
| Finished goods | <u>1,515,848</u> | <u>1,251,359</u> | <u>2,160,505</u> |
| | <u>19,070,212</u> | <u>28,062,057</u> | <u>36,862,620</u> |

At 31 December 2003 and 2004 and 30 June 2005 all inventories are stated at cost.

14. TRADE RECEIVABLES

| | At 31 December | | At 30 June |
|--|-------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| Trade receivables | 8,740,925 | 13,122,323 | 24,001,025 |
| Trade receivables from related companies | <u>3,544,077</u> | <u>5,774,704</u> | <u>4,099,047</u> |
| | <u>12,285,002</u> | <u>18,897,027</u> | <u>28,100,072</u> |

Particulars of the trade receivables from the related companies are as follows:

| | At 31 December | | At 30 June |
|--|----------------|-----------|------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) | 1,172,342 | — | — |
| 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) | 2,371,735 | — | — |
| 浙江帥康電器股份有限公司 (Zhejiang Shuaikang Electric Stock Co. Ltd.) | — | 5,774,704 | 4,099,047 |

During the Relevant Periods, the Group normally granted customers with credit terms of 30 to 90 days. The ageing analysis of the Group's trade receivables is as follows:

| | At 31 December | | At 30 June |
|--------------|-------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| 0 - 30 days | 10,142,130 | 10,739,604 | 17,073,069 |
| 31 - 60 days | 523,939 | 3,134,465 | 9,352,584 |
| 61 - 90 days | — | 2,638,971 | 1,580,767 |
| Over 90 days | <u>1,618,933</u> | <u>2,383,987</u> | <u>93,652</u> |
| | <u>12,285,002</u> | <u>18,897,027</u> | <u>28,100,072</u> |

15. DEPOSITS AND OTHER RECEIVABLES

| | At 31 December | | At 30 June |
|-------------------|------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| Deposits | 2,313,748 | 9,667,526 | 10,362,720 |
| Other receivables | <u>4,949,153</u> | <u>1,750,049</u> | <u>677,726</u> |
| | <u>7,262,901</u> | <u>11,417,575</u> | <u>11,040,446</u> |

16. DUE FROM DIRECTORS

Particulars of the amounts due from directors, pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

| | At 31 December | | At 30 June |
|--------------------|------------------|--------------|------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| Mr. Yan Siu Wai | 7,195 | 936 | — |
| Mr. Leung Kwok Yin | — | 624 | — |
| Mr. Bao Jisheng | 1,344,643 | — | — |
| | <u>1,351,838</u> | <u>1,560</u> | <u>—</u> |

The amounts due from directors represent temporary cash advance to the directors are unsecured, interest-free and have no fixed terms of repayment.

The maximum amounts outstanding during the Relevant Periods are as follows:

| | Year ended 31 December | | For the six months ended |
|--------------------|------------------------|-----------|--------------------------|
| | 2003 | 2004 | 30 June |
| | HK\$ | HK\$ | HK\$ |
| Mr. Yan Siu Wai | 7,195 | 7,195 | 936 |
| Mr. Leung Kwok Yin | — | 624 | 624 |
| Mr. Bao Jisheng | 1,344,643 | 1,344,643 | — |

17. DUE FROM/(TO) RELATED COMPANIES

- (a) The amounts due from related companies represent temporary cash advance remained outstanding at 31 December 2003 and expenses paid on behalf of the related companies by the Group remained outstanding at 31 December 2004 and at 30 June 2005. Except for the amount due from a related company of HK\$4,161,329 at 31 December 2003 which is unsecured, interest-free and repayable on 7 October 2004, all of these amounts are unsecured, interest-free and have no fixed terms of repayment.
- (b) The amounts due to related companies at 31 December 2003 comprise temporary cash advance, expenses paid on behalf of the Group by the related companies and agency fee payable to First Priority Inc. Except for an amount of HK\$943,396 due to a related company which is interest bearing of 5.841% per annum and is repayable on 19 October 2004, all of these amounts are unsecured, interest-free and have no fixed terms of repayment.

At 31 December 2004 the amounts due to related companies mainly represent the consideration of HK\$601,280 payable to Better Asia Limited in connection with the acquisition of the 55% equity interests in JF Metal. The remaining balance represents expenses paid on behalf of the Group by a related company. These amounts are unsecured, interest-free and have no fixed terms of repayment.

At 30 June 2005 the amount due to a related company represents the license fee payable to A.C.R. Equipment Supplies Limited. This amount is unsecured, interest-free and has no fixed terms of repayment.

The directors confirmed that these amounts will be fully settled upon listing of the shares of the Company on the Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (“Stock Exchange”).

18. OTHER FINANCIAL ASSETS**Restricted bank deposits and bank balances and cash**

All bank balances which are denominated in Renminbi, are placed with banks in the PRC. The remittance of these funds out of the PRC is subject to the PRC's Foreign Exchange Control Regulations.

The directors consider the restricted bank deposits and bank balances and cash approximates its fair value.

Foreign exchange risk

The Group operates mainly in Hong Kong and the PRC and is exposed to foreign exchange risk arising from RMB and the United State dollar exposures, primarily with respect to the HK\$. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Credit risk

The Group's principal financial assets are trade and other receivables and bank balances and cash, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, if any, estimated by the Group's management based on prior experience and their assessment of the current economic environment.

The credit risk on liquid funds is limited because majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has significant concentration of credit risk to its trade receivables as the Group largest customer contributed over 90% of the turnover and shared over 55% of the trade receivables in the Relevant Periods. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables.

19. TRADE PAYABLES

| | At 31 December | | At 30 June |
|-------------------------------------|-----------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Trade payables | 6,512,045 | 12,561,075 | 16,288,263 |
| Trade payables to related companies | <u>1,195,624</u> | <u>—</u> | <u>161,908</u> |
| | <u>7,707,669</u> | <u>12,561,075</u> | <u>16,450,171</u> |

Particulars of the trade payables to the related companies are as follows:

| | At 31 December | | At 30 June |
|--|----------------|------|------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| 餘姚港舜現代印務有限公司 (Yuyao Kongshun Modern Printing Services Co. Ltd.) | — | — | 18,679 |
| 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) | — | — | 143,229 |
| A.C.R. Equipment Supplies Limited | 1,195,624 | — | — |

The credit terms of trade payables varies according to terms of different suppliers which generally ranging from letter of credit at sight to 90 days. The ageing analysis of trade payables is as follows:

| | At 31 December | | At 30 June |
|--------------|------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| 0 - 30 days | 3,739,586 | 7,963,327 | 6,470,011 |
| 31 - 60 days | 1,260,926 | 2,515,194 | 5,076,995 |
| 61 - 90 days | 86,278 | 69,661 | 2,065,623 |
| Over 90 days | <u>2,620,879</u> | <u>2,012,893</u> | <u>2,837,542</u> |
| | <u>7,707,669</u> | <u>12,561,075</u> | <u>16,450,171</u> |

20. OTHER PAYABLES AND ACCRUALS

| | At 31 December | | At 30 June |
|---|------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | HK\$ | HK\$ | HK\$ |
| Other payables | 6,385,483 | 1,339,010 | 1,401,438 |
| Loan from the People's Government of Yuyao (note 20(a)) | — | 4,716,981 | 4,716,981 |
| Government grant (note 20(b)) | — | 1,886,793 | 1,886,793 |
| Accruals | <u>2,103,314</u> | <u>3,656,372</u> | <u>2,552,083</u> |
| | <u>8,488,797</u> | <u>11,599,156</u> | <u>10,557,295</u> |

- (a) This represents non-interest bearing loan obtained from the People's Government of Yuyao for the purpose of acquiring certain land use rights and repayable on 22 August 2005.
- (b) This represents government grant granted and approved by 餘姚市財政局 (Finance Bureau of Yuyao Municipal) and 餘姚市科學技術局 (Science and Technology Bureau of Yuyao Municipal) for support of the product development of the Group.
- (c) At 30 June 2005 other payables included an amount due to an independent third party amounted to approximately HK\$378,000 was interest bearing at 6% per annum and repayable on 1 March 2006.

21. DUE TO DIRECTORS

| | At 31 December | | At 30 June |
|--------------------|-----------------------|----------------|-------------------|
| | 2003 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Mr. Yan Siu Wai | — | — | 348,264 |
| Mr. Leung Kwok Yin | — | — | 232,176 |
| Mr. Bao Jisheng | — | 491,974 | — |
| | <u>—</u> | <u>491,974</u> | <u>—</u> |
| | <u>—</u> | <u>491,974</u> | <u>580,440</u> |

At 31 December 2004 the amount due to a director mainly represents the purchase consideration payable to Mr. Bao Jisheng in connection with the acquisition of his beneficial interest in JF Metal. The amount is unsecured, interest-free and fully settled in January 2005.

At 30 June 2005 the amounts due to directors represents the temporary cash advance from the directors. The directors confirmed that these amounts will be fully settled upon listing of the shares of the Company on the GEM of Stock Exchange.

22. BANK BORROWINGS

| | At 31 December | | At 30 June |
|---|-----------------------|-------------------|-------------------|
| | 2003 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Secured bank loans wholly repayable within one year | 15,855,319 | 22,922,358 | 15,566,038 |
| | <u>15,855,319</u> | <u>22,922,358</u> | <u>15,566,038</u> |

At 30 June 2005 the Group has been granted banking facilities totalling approximately HK\$31 million which were secured by the legal charge on land use rights and certain buildings owned by the Group.

23. PAID-IN CAPITAL

For the purpose of the preparation of the combined balance sheets, the paid-in capital at 31 December 2003 and 2004 and at 30 June 2005 represented the aggregate amount of the nominal value of the registered capital of the companies now comprising the Group at the respective dates.

24. NOTES TO THE COMBINED CASH FLOW STATEMENTS

Analysis of changes in financing during the Relevant Periods:

| | Bank borrowings <i>HK\$</i> |
|------------------------------|---------------------------------------|
| At 1 January 2003 | 7,994,985 |
| Proceeds from new bank loans | 15,855,319 |
| Repayment of bank loans | <u>(7,994,985)</u> |
| At 31 December 2003 | 15,855,319 |
| Proceeds from new bank loans | 36,046,550 |
| Repayment of bank loans | <u>(28,979,511)</u> |
| At 31 December 2004 | 22,922,358 |
| Proceeds from new bank loans | 8,962,264 |
| Repayment of bank loans | <u>(16,318,584)</u> |
| At 30 June 2005 | <u><u>15,566,038</u></u> |

25. COMMITMENTS

| | At 31 December | | At 30 June |
|---|-----------------------|----------------|-------------------|
| | 2003 | 2004 | 2005 |
| | <i>HK\$</i> | <i>HK\$</i> | <i>HK\$</i> |
| Commitments in respect of construction of the factory premises and acquisition of plant and machinery | | | |
| Contracted but not provided for | <u>2,832,690</u> | <u>230,189</u> | <u>1,401,670</u> |

Save as disclosed above, the Group had no significant capital and financial commitments as at 31 December 2003 and 2004 and at 30 June 2005.

26. RELATED PARTY TRANSACTIONS

During the Relevant Periods, in the normal course of business, the Group entered into significant transactions with its related parties, of which certain directors of the Company are also directors of these companies or held beneficial interests therein, as follows:

| | Year ended 31 December | | For the six months ended 30 June | |
|---|------------------------|--------------|----------------------------------|--------------|
| | 2003 HK\$ | 2004 HK\$ | 2004 HK\$ | 2005 HK\$ |
| | | | <i>(unaudited)</i> | |
| Continuing: | | | | |
| Purchases from | | | | |
| - 餘姚港舜現代印務有限公司 (Yuyao Kongsun Modern Printing Services Co. Ltd.) (note 26(a)) | 44,246 | 221,270 | 73,495 | 25,608 |
| Sales to | | | | |
| - 浙江帥康電氣股份有限公司 (Zhejiang Shuaikang Electric Stock Co. Ltd.) (note 26(b)) | — | 7,096,122 | — | 5,291,750 |
| Processing charges paid to 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) (note 26(a)) | 458,416 | 661,368 | 309,572 | 146,457 |
| License fee paid to A.C.R. Equipment Supplies Limited (note 26(a)) | — | — | — | 16,500 |
| Discontinuing: | | | | |
| Purchases from | | | | |
| - A.C.R. Equipment Supplies Limited (note 26(a)) | 3,071,407 | 4,588,783 | 1,470,396 | — |
| - 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) (note 26(a)) | 371,574 | 277,084 | 233,025 | — |
| Sales to | | | | |
| - 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) (note 26(a)) | 9,179,659 | 5,818,317 | 5,818,317 | — |
| - 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) (note 26(a)) | 2,027,125 | 1,066,072 | 1,066,072 | — |
| - 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-conditioning Co. Ltd.) (note 26(a)) | 415,010 | 99,661 | 99,661 | — |
| Agency fee paid to First Priority Inc. (note 26(a)) | 1,737,397 | — | — | — |
| Sale of heat exchanger production line to 寧波美意熱交換器有限公司 (Ningbo Mei Yi Heat Exchanger Co. Ltd.) (note 26(a)) | — | 2,466,196 | 2,466,196 | — |
| Interest paid to | | | | |
| - 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd.) (note 26(a)) | — | 92,506 | — | — |
| - 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-conditioning Co. Ltd.) (note 26(a)) | — | 49,449 | 15,532 | — |
| Acquisition of the equity interest in JF Metal from | | | | |
| - Better Asia Limited (note 26(a)) | — | 601,280 | — | — |
| - Mr. Bao Jisheng | — | 491,957 | — | — |

- (a) Mr. Yan Siu Wai and Mr. Leung Kwok Yin are directors of and held beneficial interests in these companies as follows.

| Name of related parties | Beneficial interests held by: | |
|--|-------------------------------|--------------------|
| | Mr. Yan Siu Wai | Mr. Leung Kwok Yin |
| 餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd) | 43% | 32% |
| 番禺速能冷暖設備有限公司 (Panyu Super Link Co. Ltd.) | 28% | 24% |
| 餘姚捷豐空調風機有限公司 (Yuyao Jiefeng Fan and Air-conditioning Co. Ltd.) | 24% | 16% |
| 餘姚港舜現代印務有限公司 (Yuyao Kongshun Modern Printing Services Co. Ltd.)* | 8% | 10% |
| 寧波美意熱交換器有限公司 (Ningbo Mei Yi Heat Exchanger Co. Ltd.) | 33% | 33% |
| First Priority Inc. | 50% | 50% |
| Better Asia Limited | 60% | 40% |
| A.C.R. Equipment Supplies Limited* | 30% | 40% |

- * Madam Mak Man Lee, Manly, the spouse of Mr. Yan Siu Wai, also held beneficial interests in 餘姚港舜現代印務有限公司 (Yuyao Kongshun Modern Printing Services Co. Ltd.) and A.C.R. Equipment Supplies Limited of 8% and 30% respectively.

- (b) Mr. Yan Siu Wai is a director of and Mr. Bao Jisheng held approximately 5% beneficial interest in this company.

In the opinion of the directors, these transactions with the related parties are conducted on normal commercial terms and the terms are fair and reasonable.

During the Relevant Periods the key management personnel compensation paid by the Group were disclosed in note 10 to the combined financial statements.

27. EVENTS AFTER THE BALANCE SHEET DATE

The following events took place subsequent to 30 June 2005:

- (a) 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 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.
- (b) On 5 September 2005, the Company became the holding company of the Group.
- (c) The companies now comprising the Group underwent a reorganisation in preparation for listing of the Company’s shares on the GEM of Stock Exchange, details of which are set out in the paragraph headed “Corporate Reorganisation” in the section headed “Further information about the Company” in Appendix V to the Prospectus.
- (d) On 8 September 2005, resolutions of the shareholders were passed to approve the matters set out in the paragraph headed “Written resolutions of all shareholders of the Company passed on 8 September 2005” in Appendix V to the Prospectus.

Save as aforesaid, no other significant events took place subsequent to 30 June 2005.

III. FINANCIAL INFORMATION ABOUT THE COMPANY**1. Net assets of the Company**

The Company was incorporated in the Cayman Islands on 19 January 2005 and has not carried out any business since the date of its incorporation. Accordingly, the Company has no material assets or liabilities as at 30 June 2005.

2. Distributable reserves

The Company was incorporated in the Cayman Islands on 19 January 2005 and has not carried out any business since the date of its incorporation. Accordingly, the Company has no reserve available for distribution to the shareholders of the Company at 30 June 2005.

IV. DIRECTORS' REMUNERATION

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Group for the year ending 31 December 2005 is approximately HK\$1,904,600, excluding performance bonus. Further details concerning the terms of which are set out in the paragraph headed "Further information about the directors, senior management, staff and substantial shareholders" in Appendix V to the Prospectus.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2005.

Yours faithfully
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong