

FURTHER INFORMATION ABOUT THE COMPANY**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company on 19 January 2005 with an authorised share capital of HK\$200,000 divided into 20,000,000 shares of HK\$0.01 each. On 23 February 2005, one share of HK\$0.01 was allotted and issued to Codan Trust Company (Cayman) Limited nil paid. On the same date, Codan Trust Company (Cayman) Limited transferred the one share of HK\$0.01 to Excel Strength and an aggregate of 999,999 shares of HK\$0.01 each were allotted and issued nil paid by the Company as to 269,999 shares of HK\$0.01 each to Excel Strength, as to 230,000 shares of HK\$0.01 each to Willhero, as to 100,000 shares of HK\$0.01 each to Mr. Yan Siu Wai, as to 180,000 shares of HK\$0.01 each to Hero Talent, as to 100,000 shares of HK\$0.01 each to Joyday and as to 120,000 shares of HK\$0.01 each to Mr. Leung Kwok Yin. All such shares were subsequently paid up in the manner described in paragraph 4 below.

The Company was incorporated in the Cayman Islands and is subject to Cayman Islands law. Its constitution comprises a memorandum of association and articles of association. A summary of certain relevant parts of its constitution and relevant aspects of the Cayman Islands company law is set out in Appendix IV to this prospectus.

2. Changes in share capital

Pursuant to the written resolutions of all shareholders of the Company passed on 8 September 2005, the share capital of the Company was increased to HK\$5,000,000 by the creation of additional 480,000,000 Shares.

Immediately following completion of the Placing and the Capitalisation Issue (without taking into account any Shares which may be issued upon the exercise of the Offer Size Adjustment Option and any options that have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme), the authorised share capital of the Company will be HK\$5,000,000 divided into 500,000,000 Shares of which 168,000,000 Shares will be allotted and issued fully paid or credited as fully paid, and 332,000,000 Shares will remain unissued. Other than the allotment and issue of shares pursuant to the Offer Size Adjustment Option and any options which have been or may be granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, the Directors do not have any present intention to issue any part of the authorised but unissued share capital of the Company and, without the prior approval of the members in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed herein, there has been no alteration in the share capital of the Company since its incorporation.

3. Written resolutions of all shareholders of the Company passed on 8 September 2005

Pursuant to the written resolutions passed by all shareholders of the Company on 8 September 2005:

- (a) the Company approved and adopted its existing articles of association;
- (b) the authorised share capital of the Company was increased from HK\$200,000 to HK\$5,000,000 by the creation of additional 480,000,000 Shares;
- (c) conditional on the GEM Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned in this prospectus and on the obligations of the Underwriter(s) under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the date falling 30 days after the date of this prospectus:
 - (i) the Placing was approved and the Directors were authorised to allot and issue the Placing Shares;
 - (ii) the grant of the Offer Size Adjustment Option was approved and the Directors were authorised to allot and issue such number of Shares that are required to be issued upon the exercise of the Offer Size Adjustment Option;
 - (iii) the rules of the Post-IPO Share Option Scheme were approved and adopted, and the Directors were authorised to approve any amendments to the rules of the Post-IPO Share Option Scheme as may be acceptable or not objected to by the Stock Exchange, and at their absolute discretion to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Post-IPO Share Option Scheme;
 - (iv) conditional on the share premium account of the Company being credited as a result of the Placing, the Directors were authorised to capitalise HK\$1,240,000 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 124,000,000 Shares for allotment and issue to holders of Shares whose names appear on the register of members of the Company at the close of business on 8 September 2005 (or as they may direct) in proportion as nearly as possible without involving fractions to their then existing shareholdings in the Company;
 - (v) a general unconditional mandate was given to the Directors to allot, issue and otherwise deal with unissued shares in the capital of the Company and to make or grant offers, agreements and options which may require the exercise of such powers, otherwise than pursuant to a rights issue, the Placing and the Capitalisation Issue, the grant and/or exercise of the Offer Size Adjustment Option, the grant of options under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme or the

exercise of any of the subscription rights attaching to any options which may be granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme or any issue of Shares upon exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares or any scrip dividend scheme or similar arrangement providing for allotment of shares in lieu of the whole or part of any dividend in accordance with the articles of association of the Company with an aggregate nominal amount not exceeding the sum of (aa) 20% of the aggregate nominal amount of the share capital of the Company in issue and to be issued under the Placing and the Capitalisation Issue and the exercise (if any) of the Offer Size Adjustment Option and (bb) the aggregate nominal amount of any share capital of the Company purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (vi) below, until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors, whichever is the earliest; and

- (vi) a general unconditional mandate was given to the Directors to exercise all powers of the Company to purchase Shares on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and recognised by the SFC and the Stock Exchange for this purpose with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued under the Placing and the Capitalisation Issue and the exercise (if any) of the Offer Size Adjustment Option until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands law to be held or the passing of an ordinary resolution by shareholders of the Company in general meeting revoking, varying or renewing the authority given to the Directors, whichever is the earliest;
- (d) the rules of the Pre-IPO Share Option Scheme were approved and adopted and Directors were authorised to grant options to subscribe Shares thereunder and subject to the GEM Listing Committee granting the listing of and permission to deal in the Shares to be issued pursuant to the exercise of the options granted under the Pre-IPO Share Option Scheme, to allot and issue Shares pursuant to the exercise of options granted under the Pre-IPO Share Option Scheme;
- (e) a general unconditional mandate mentioned in sub-paragraph (c)(v) above was extended by the addition to the aggregate nominal amount of the Shares which may be allotted, issued or otherwise dealt with by the Directors pursuant to or in accordance with such mandate of an amount representing the aggregate nominal amount of the share capital of the Company

purchased by the Company pursuant to or in accordance with the authority granted under sub-paragraph (c)(vi) above provided that such extended amount shall not exceed 10% of the aggregate nominal amount of share capital of the Company in issue and to be issued; and

- (f) the form and substance of the service agreements made between the executive Directors and the Company were approved.

4. Corporate reorganisation

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the Shares on GEM. The reorganisation involved the transfer to the Company by Mr. Yan Siu Wai and Mr. Leung Kwok Yin of an aggregate of 300 shares in JF Asia, being the entire issued shares in JF Asia, the intermediate holding company of the Group, in consideration and in exchange for which the Company (i) allotted and issued credited as fully paid, 1,000,000 new Shares as to 270,000 Shares to Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and as to 120,000 Shares to Mr. Leung Kwok Yin; and (ii) credited as fully paid at par the 1,000,000 nil paid Shares held as to 270,000 Shares to Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and as to 120,000 Shares to Mr. Leung Kwok Yin.

In addition to the transfer of shares in JF Asia referred to above, the Group also underwent the following corporate restructuring:

- (a) on 11 October 2004, Keylink acquired the entire equity interests in JF Metal from Better Asia and Mr. Bao Jisheng in consideration of RMB637,357 (approximately HK\$601,280) and RMB521,474 (approximately HK\$491,957) respectively;
- (b) on 15 December 2004, JF BVI acquired the entire equity interests in JF Ningbo from Better Asia in consideration of the allotment and issue of an aggregate of 100 shares of US\$1.00 in JF BVI, as to 60 shares to Mr. Yan Siu Wai and 40 shares to Mr. Leung Kwok Yin;
- (c) on 23 July 2005, JF Asia acquired an aggregate of 100 shares of US\$1.00 each in Keylink, as to 60 shares from Mr. Yan Siu Wai, as to 40 shares from Mr. Leung Kwok Yin, in consideration of the allotment and issue of an aggregate of 100 shares of US\$1.00 each in JF Asia, as to 60 shares to Mr. Yan Siu Wai and as to 40 shares to Mr. Leung Kwok Yin;
- (d) on 23 July 2005, JF Asia acquired an aggregate of 100 shares of US\$1.00 each in JF BVI, as to 60 shares from Mr. Yan Siu Wai and as to 40 shares from Mr. Leung Kwok Yin, in consideration of the allotment and issue of an aggregate of 100 shares of US\$1.00 each in JF Asia as to an aggregate of 60 shares to Mr. Yan Siu Wai and as to an aggregate of 40 shares to Mr. Leung Kwok Yin; and

- (e) on 23 July 2005, JF Asia acquired an aggregate of 100 shares of US\$1.00 each in JF Macau Holdings, as to 60 shares from Mr. Yan Siu Wai and as to 40 shares from Mr. Leung Kwok Yin, in consideration of the allotment and issue of an aggregate of 100 shares of US\$1.00 each in JF Asia as to an aggregate of 60 shares to Mr. Yan Siu Wai and as to an aggregate of 40 shares to Mr. Leung Kwok Yin.

5. Changes in share capital of the Company's subsidiaries

The subsidiaries of the Company are referred to in the accountants' report set out in Appendix I to this prospectus. Save as disclosed herein below and in paragraph 4 above, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

- (a) on 9 August 2004, Keylink was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each;
- (b) on 2 September 2004, 60 shares of US\$1.00 each in Keylink were allotted and issued to Mr. Yan Siu Wai for cash at par value;
- (c) on 2 September 2004, 40 shares of US\$1.00 each in Keylink were allotted and issued to Mr. Leung Kwok Yin for cash at par value;
- (d) On 21 October 2004, JF BVI was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each;
- (e) on 21 October 2004, JF Asia was incorporated with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each;
- (f) on 15 December 2004, 60 shares of US\$1.00 each in JF BVI were allotted and issued credited as fully paid to Mr. Yan Siu Wai; and
- (g) on 15 December 2004, 40 shares of US\$1.00 each in JF BVI were allotted and issued credited as fully paid to Mr. Leung Kwok Yin.

6. Repurchase by the Company of its own securities

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) *GEM Listing Rules*

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarised below;

(i) *Shareholders' approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company with a primary listing on the GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: Pursuant to a resolution in writing passed by all shareholders of the Company on 8 September 2005 a general unconditional mandate (the “**Repurchase Mandate**”) was given to the Directors authorising any repurchase by the Company of Shares on GEM or on any other Stock Exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of up to 10% of the aggregate nominal value of the share capital of the company in issue and to be issued as mentioned herein, such mandate to expire at the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable Cayman Islands laws to be held or when the authority given to the Directors was revoked or varied or renewed by ordinary resolution of shareholders of the Company in general meeting of the Company, whichever is the earliest.

(ii) *Source of funds*

Repurchases must be paid out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association and the Companies Law. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands law, repurchases by the Company may only be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a purchase over the par value of the shares to be purchased must be provided for out of profits of the Company or out of the Company's share premium account, or, if so authorised by its articles of association and subject to the provisions of the Companies Law, out of capital.

(b) *Reasons for repurchases*

Repurchases of Shares will only be made when the Directors believe that such a repurchase is in the best interest of the Company and its shareholders. Such repurchases may, depending on market conditions and funding arrangements at that time, lead to an enhancement of the net asset value per Share of the Company and/or earnings per Share.

(c) *Funding of repurchases*

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the repurchase mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the repurchase mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or on the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate on the basis of 168,000,000 Shares in issue immediately after the listing of the Shares, would result in up to 16,800,000 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(d) *General*

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their respective associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, memorandum and articles of association and the applicable laws and regulations of the Cayman Islands.

If, as a result of a repurchase of securities, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "**Takeovers Code**"). Accordingly, a shareholder or a group of shareholders acting in concert, depending on the level of increase in the shareholder's interests, could obtain or consolidate control of the Company and become(s) obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code pursuant to the Repurchase Mandate.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

Repurchases of securities on GEM or otherwise must be reported to the Stock Exchange not later than 30 minutes before the earlier of the commencement of the morning trading session or any pre-opening trading session on the business day following the day in which the Company repurchases its securities. The Stock Exchange is to make this information publicly available as soon as possible. In addition, a company's annual report is required to disclose details regarding securities repurchases made during the year, including the number of securities repurchased and the aggregate price paid. The Directors' report is also required to contain reference to the purchases made during the year and the Directors' reasons for making such purchases.

7. *Registration under Part XI of the Companies Ordinance*

The Company has established a principal place of business in Hong Kong at 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance in Hong Kong on 1 September 2005. Mr. Yan Siu Wai and Mr. Cheung Wai Tak, being a Director and the company secretary respectively have been appointed as the agents of the Company for the acceptance of service of process in Hong Kong. The address for service of process of the Company in Hong Kong is 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) transfer agreement (in Chinese) dated 1 April 2004 entered into between Mr. Yan Siu Wai, Mr. Leung Kwok Yin and JF Equipment Supplies (Ningbo), pursuant to which the Heat Exchanger Business was disposed at a consideration of RMB2,614,167.37 (approximately HK\$2,466,196);
- (b) loan agreement (in Chinese) dated 23 August 2004 entered into between 余姚市政府統籌資金專戶 (The Fund Management Account of the People's Government of Yuyao) and JF Ningbo, pursuant to which an interest free loan in the sum of RMB5,000,000 (approximately HK\$4,716,981) was extended to JF Ningbo for a period from 23 August 2004 to 22 August 2005 for the purpose of possible relocation;
- (c) transfer agreement (in Chinese) dated 25 September 2004 entered into between Better Asia with Keylink pursuant to which 55% registered capital in JF Metal was transferred from Better Asia to Keylink in consideration of RMB637,357 (approximately HK\$601,280);
- (d) transfer agreement (in Chinese) dated 25 September 2004 entered into between Mr. Bao Jisheng with Keylink pursuant to which 45% registered capital in JF Metal was transferred from Mr. Bao Jisheng to Keylink in consideration of RMB521,474 (approximately HK\$491,957);
- (e) transfer agreement (in Chinese) dated 3 December 2004 entered into between Better Asia and JF BVI, pursuant to which the entire equity interests in JF Ningbo were transferred from Better Asia to JF BVI in consideration of the allotment and issue of an aggregate of 100 shares of US\$1.00 in JF BVI, as to 60 shares to Mr. Yan Siu Wai and 40 shares to Mr. Leung Kwok Yin;
- (f) agreement for sale and purchase dated 5 September 2005 entered into between Mr. Yan Siu Wai and Mr. Leung Kwok Yin (as vendors), Mr. Yan Siu Wai, Mr. Leung Kwok Yin, Excel Strength, Willhero, Hero Talent and Joyday (as warrantors) and the Company (as purchaser) pursuant to which 300 shares in JF Asia were transferred to the Company in consideration of and in exchange for which the Company (i) allotted and issued credited as fully paid,

1,000,000 new shares as to 270,000 Shares to Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and as to 120,000 Shares to Mr. Leung Kwok Yin; and (ii) credited as fully paid at par the 1,000,000 nil paid Shares held as to 270,000 Shares by Excel Strength, as to 230,000 Shares to Willhero, as to 100,000 Shares to Mr. Yan Siu Wai, as to 180,000 Shares to Hero Talent, as to 100,000 Shares to Joyday and 120,000 Shares by Mr. Leung Kwok Yin;

- (g) the Underwriting Agreement; and
- (h) a deed of indemnity dated 5 October 2005 executed by Mr. Yan Siu Wai, Mr. Leung Kwok Yin, Excel Strength, Willhero, Hero Talent and Joyday in favour of the Company and its subsidiaries containing the indemnities in respect of certain estate duty and taxation referred to in sub-paragraph 2 headed “Estate duty and tax indemnity” under the paragraph headed “Other Information” of this Appendix.

2. Intellectual property rights of the Group

As at the Latest Practicable Date, the Group has registered/has applied for the registration of the following trademarks:

- (a) *Registered trademark:*

The Group has registered a trademark, details of which are as follows:

Trademark	Name of registered proprietor	Place of registration	Classes	Trade Mark number	Expiry Date
	JF BVI	Hong Kong	6, 20, 21 and 40 (Notes)	300384831	11 March 2015
					

Notes:

Class	Specifications
6	Goods: common metals (including but not limited to stainless steel) and their alloys and goods in common metals or coated therewith, not included in other classes; small items of metal hardware; pedal bin of metal; cabinet handles of metal; metal kitchen products; metal bathroom products; parts and fittings for the aforesaid goods; all included in Class 6.
20	Goods: furniture, mirrors, goods of woods (not included in other classes); parts and fittings for the aforesaid goods; all included in Class 20.
21	Goods: household or kitchen utensils and containers (not of precious metal or coated herewith); toilet utensils (not of precious metal or coated herewith); household products, kitchen products and bathroom products; glassware; all included in Class 21.
40	Services: treatment of materials for manufacturing household products, kitchen products, bathroom products; parts and fittings for the aforesaid goods; all included in Class 40.

(b) *Trademarks under application*

The Group has applied for registration of the following trademarks:

Trademark	Place of application	Class	Date of Application and Application number	Specification of goods or services
	PRC	20	20 June 2005 4729638	Goods: Furniture; sideboards; furniture of metal; dinner wagons (furniture); mirrors (looking glasses); coatstands; racks (furniture); washstands (furniture); counters (tables); all included in Class 20.
	PRC	21	20 June 2005 4729639	Goods: Epergnes, not of precious metal; kitchen utensils, not of precious metal; coffee services, not of precious metal; toilet paper holders; dishes for soap; clothes racks (for drying); garbage cans; ice pails; services (tableware), not of precious metal; knife rests for the table; all included in Class 21.

As at the Latest Practicable Date, the Group also registered the following domain name, details of which are set out below:

Domain Name	Registrant	Expiry Date
jffurnishings.com	JF Household Furnishings Limited	24 August 2006

Note: The contents of the above website do not form part of this prospectus.

FURTHER INFORMATION ABOUT THE DIRECTORS, SENIOR MANAGEMENT, STAFF AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of interests

Directors

(a) Disclosure of interest

Immediately following completion of the Placing and the Capitalisation Issue and assuming the Offer Size Adjustment Option, the options granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Post-IPO Share Option Scheme are not exercised, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO to be entered in the register referred to therein once the Shares are listed, or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transaction by Directors once the Shares are listed will be as follows:

(i) Aggregate long positions in Shares and any of its associated corporations

Name of Company	Name of Director	Capacity	Number of Shares			Total	Approximate percentage of interests
			Personal interests	Family interests	Corporate interests		
Company	Mr. Yan Siu Wai (Note 1)	Interest of controlled corporations	—	—	63,000,000	63,000,000	37.5%
Excel Strength	Mr. Yan Siu Wai (Note 1)	Beneficial owner	100	—	—	100	100%
Willhero	Mr. Yan Siu Wai (Note 1)	Beneficial owner	100	—	—	100	100%
Company	Mr. Yan Siu Wai (Note 2)	Beneficial owner	12,600,000	—	—	12,600,000	7.5%
Company	Mr. Leung Kwok Yin (Note 3)	Interest of controlled corporations (Note 2)	—	—	35,280,000	35,280,000	21%

Name of Company	Name of Director	Capacity	Number of Shares			Total	Approximate percentage of interests
			Personal interests	Family interests	Corporate interests		
Hero Talent	Mr. Leung Kwok Yin (<i>Note 3</i>)	Beneficial owner	100	—	—	100	100%
Joyday	Mr. Leung Kwok Yin (<i>Note 3</i>)	Beneficial owner	100	—	—	100	100%
Company	Mr. Leung Kwok Yin (<i>Note 4</i>)	Beneficial owner	15,120,000	—	—	15,120,000	9%

Notes:

- (1) Among these 63,000,000 Shares, (i) 34,020,000 Shares will be registered in the name of Excel Strength and (ii) 28,980,000 Shares will be registered in the name of Willhero. Each of Excel Strength and Willhero is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Yan Siu Wai. By virtue of the SFO, Mr. Yan Siu Wai is deemed to be interested in 63,000,000 Shares through his shareholdings in Excel Strength and Willhero.
- (2) The 12,600,000 Shares will be held by Mr. Yan Siu Wai directly.
- (3) Among these 35,280,000 Shares, (i) 22,680,000 Shares will be registered in the name of Hero Talent; and (ii) 12,600,000 Shares will be registered in the name of Joyday. Each of Hero Talent and Joyday is a company incorporated in the BVI and whose entire issued capital is solely owned by Mr. Leung Kwok Yin. By virtue of the SFO, Mr. Leung Kwok Yin is deemed to be interested in 35,280,000 Shares through his shareholdings in Hero Talent and Joyday.
- (4) The 15,120,000 Shares will be held by Mr. Leung Kwok Yin directly.

(ii) Aggregate long positions in equity derivatives in, or in respect of, underlying Shares

Pursuant to the Pre-IPO Share Option Scheme, three executive Directors have been granted options to subscribe for shares, details of which are set out as follows:

Name of Company	Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Number of Underlying Shares	Approximate percentage of interests
Company	Mr. Yan Siu Wai	Executive Director	4,435,200	—	—	4,435,200	2.64%
Company	Mr. Leung Kwok Yin	Executive Director	2,956,800	—	—	2,956,800	1.76%
Company	Mr. Bao Jisheng	Executive Director	3,360,000	—	—	3,360,000	2%

(b) *Particulars of Directors' service contracts*

Each of Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Mr. Bao Jisheng being all the executive Directors, has entered into a service contract with the Company on 8 September 2005 for an initial term of three years commencing from 8 September 2005, and is automatically renewable for successive terms of one year upon the expiry of the then current term until terminated by not less than six months' notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective basic salary set out below. In addition, each of Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Mr. Bao Jisheng is entitled to a management bonus in respect of each financial year of the Company in an amount to be determined by the Board in its absolute discretion provided that the aggregate amount of the bonuses payable to all the executive Directors who are entitled to such bonuses for any financial year of the Company may not exceed 10% of the audited consolidated or combined net profit of the Group (after taxation and minority interests and payment of such bonuses but before extraordinary items) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him. The current basic monthly salaries of the executive Directors are as follows:

Name of Director	Monthly salary
Mr. Yan Siu Wai	HK\$34,000 (<i>Note</i>)
Mr. Leung Kwok Yin	HK\$18,000 (<i>Note</i>)
Mr. Bao Jisheng	HK\$58,000 (<i>Note</i>)

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

(c) *Directors' remuneration*

- (i) During each of the two years ended 31 December 2003 and 31 December 2004 and the six months ended 30 June 2005, the aggregate emoluments paid or payable by the Group to the Directors were (including performance related bonus and travelling allowance) approximately HK\$207,900, HK\$2,070,400 and HK\$1,036,300, respectively and (excluding performance related bonus and travelling allowance) approximately HK\$17,000, HK\$1,320,400 and HK\$743,100.
- (ii) The independent non-executive Directors, namely, Mr. Kwan Kai Cheong, Mr. Garry Alides Willinge and Mr. Yu Hon Wing Allan, will be paid a director's fee of HK\$100,000, HK\$100,000 and HK\$60,000 per annum respectively.
- (iii) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31 December 2005 will be about HK\$1,529,600 (excluding any performance related bonus, travelling allowance and contribution under mandatory provident fund).

- (iv) The Company's policies concerning remuneration of the executive Directors are:
- the amount of remuneration is determined on the basis of the relevant Directors' experience, responsibility, workload, and the time devoted to the Group;
 - non-cash benefit may be provided to the Directors under their remuneration package; and
 - the executive Directors may be granted, at the discretion of the Board, options pursuant to the Post-IPO Share Option Scheme, as part of their remuneration package.

Substantial shareholders

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue and taking no account of Shares which may be taken up under the Placing and the Shares may be issued upon the exercise of the Offer Size Adjustment Option and the options granted under the Pre-IPO Share Option Scheme or any option which may be granted under the Post-IPO Share Option Scheme, the following persons (not being a Director or chief executive of the Company) will have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Long positions in Shares

Name	Capacity	Number of shares	Approximate percentage of interests
Excel Strength	Beneficial	34,020,000 shares	20.25%
Willhero	Beneficial	28,980,000 shares	17.25%
Hero Talent	Beneficial	22,680,000 shares	13.5%

Others

(a) *Agency fees or commission*

Save as disclosed in this prospectus, within the two years preceding the date of this prospectus, no commission (excluding commission to sub-underwriters) for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscription, for any Shares in, or debentures of, the Company has been paid nor is payable.

(b) *Related parties transactions*

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in note 26 in section II of the accountant's report set out in Appendix I to this prospectus and the paragraph headed "Related parties' transactions and connected transactions" in the section headed "Business" in this prospectus.

(c) *Disclaimers*

Save as disclosed in this prospectus:

- (i) taking no account of any Shares which may be taken up under the Placing and Shares falling to be allotted and issued upon exercise of the Offer Size Adjustment Option and any option granted under the Pre-IPO Share Option Scheme and any option which may be granted under the Post-IPO Share Option Scheme, the Directors are not aware of any person (not being a Director or chief executive of the Company) who immediately following the completion of the Placing and the Capitalisation Issue, has an interest or short position in the Shares or underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group;
- (ii) taking no account of any Shares which may be taken up under the Placing, none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they will be taken or deemed to have under such provisions of the SFO) once the Shares are listed or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange, once the Shares are listed;
- (iii) none of the Directors or any of the experts named in sub-paragraph 7 under the paragraph headed “Other Information” of this Appendix has been interested in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to any member of the Group nor will any Director apply for the Placing Shares either in his own name or in the name of a nominee;
- (iv) none of the Director or any of the experts named in sub-paragraph 7 under the paragraph headed “Other Information” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;
- (v) none of the experts named in sub-paragraph 7 under the paragraph headed “Other Information” of this Appendix has any shareholding in any member in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or is in employment as an officer or servant of the Group;

- (vi) none of the Directors has entered or has proposed to enter into any service agreements with the Company or any members of the Group (other than contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation);
- (vii) no cash, securities or other benefit has been paid, allotted or given within the two years preceding the date of this prospectus to any promoter of the Company nor is any such cash, securities or benefit intended to be paid, allotted or given on the basis of the Placing or related transaction as mentioned in this prospectus; and
- (viii) none of the Directors, their respective associates (as defined in the GEM Listing Rules) or shareholders of the Company who are interested in 5% or more of the issued share capital of the Company so far as is known to the Directors have any interests in the five largest customers or suppliers of the Group.

OTHER INFORMATION

1. Share Option Schemes

Post-IPO Share Option Scheme

Summary of terms of the Post-IPO Share Option Scheme

The following is a summary of the principal terms of the Post-IPO Share Option Scheme conditionally adopted by the shareholders of the Company by way of written resolution passed on 8 September 2005. The purpose of the Post-IPO Share Option Scheme is to enable the Company to recognise the contributions of the participants to the Group and to motivate the participants to continuously work to the benefit of the Group by offering to the participants an opportunity to have personal interest in the share capital of the Company.

(a) Who may join

The Board may, at its discretion, offer any Participant options to subscribe for such number of new Shares at any exercise price determined in accordance with sub-paragraph (b) below.

For the purpose of this section, unless the context otherwise requires, “**Employee**” means any employee (including Directors) of the Group; “**Grantee**” means any Participant who has been offered and accepted an option in accordance with the terms of the Post-IPO Share Option Scheme; and “**Participant**” means any employee, consultants and/or advisers who in the sole discretion of the board of the Directors have contributed or will contribute to the Group.

(b) Price of Shares

The subscription price for Share(s) under the Post-IPO Share Option Scheme will be a price as the Board in its absolute discretion shall determine and notify to each Participant and will be the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily

quotations sheet on the date of grant of the option (which must be a business day), (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option and (iii) the nominal value of a Share on the date of grant of the option. The date of grant is the date on which the option is offered. For the purpose of calculating the subscription price where the Company has been listed for less than five business days, the Placing Price, being a price not more than HK\$0.96 per Share and expected to be not less than HK\$0.80 per Share, shall be used as the closing price for any business day falling within the period before listing of the Shares on GEM.

(c) Payment on acceptance of option offer

Upon acceptance of the option, the Grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

(d) Maximum number of Shares

- (i) Subject to sub-paragraphs (ii) (iii) and (iv) below, the overall limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes of the Group (including the Pre-IPO Share Option Scheme) must not exceed 30% of the Shares in issue from time to time ("**Scheme Limit**").
- (ii) The Shares which are the subject of options that may be granted immediately after the listing of the Shares on GEM must not exceed 10% of the Shares in issue on the Listing Date ("**Scheme Mandate Limit**"), unless approval of the shareholders of the Company has been obtained pursuant to sub-paragraphs (iii) and (iv) below. Options lapsed in accordance with the terms of the Post-IPO Share Option Scheme and any other share option schemes of the Group (including the Pre-IPO Share Option Scheme) will not be counted for the purpose of calculating the Scheme Mandate Limit.
- (iii) Subject to sub-paragraph (i) above, the Company may renew the Scheme Mandate Limit at any time subject to prior shareholders' approval. However, the Scheme Mandate Limit as renewed must not exceed 10% of the Shares in issue as at the date of the aforesaid shareholders' approval. Options previously granted under the Post-IPO Share Option Scheme and other share option schemes of the Group (including those outstanding, cancelled, lapsed in accordance with the schemes or exercised options) will not be counted for the purpose of calculating the limit as renewed. A circular containing such information required under the GEM Listing Rules must be sent to shareholders in connection with the meeting at which their approval will be sought.
- (iv) Subject to sub-paragraph (i) above, the Company may also seek separate shareholders' approval for granting options beyond the Scheme Mandate Limit to Participants specifically identified by the Company before the aforesaid shareholders' meeting where such approval is sought. A circular must be sent to shareholders containing a

generic description of the identified Participants, the number and terms of the options to be granted, the purpose of granting options to the identified Participants with explanation as to how these options serve such purpose and such other information required under the GEM Listing Rules.

- (v) The total number of Shares issued and to be issued upon exercise of the options granted and to be granted to each Participant or Grantee (as the case may be) (including both exercised and outstanding options) in any 12-month period up to and including the date of grant must not exceed 1% of the Shares in issue at the date of grant (“**Individual Limit**”). Any further grant of options in excess of the Individual Limit must be subject to shareholders’ approval with such Participant or Grantee (as the case may be) and his associates (as such term is defined in the GEM Listing Rules) abstaining from voting. A circular must be sent to the shareholders disclosing the identity of the Participant or Grantee (as the case may be), the number and terms of the options granted and to be granted and such other information required under the GEM Listing Rules. The number and terms of options to be granted to such Participants or Grantee, as the case may be, must be fixed before shareholders’ approval is sought and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.
- (e) Restrictions on grant of option
- (i) An offer may not be made after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. In particular, during the period of one month immediately preceding the earlier of (i) the date of the meeting of the board of Directors (as such date is first notified to the Stock Exchange in accordance with Rule 17.48 of the GEM Listing Rules) for the approval of the Company’s annual, half-year or quarter-year results; and (ii) the deadline for the Company to publish its annual, half-year or quarter-year results announcements under Rules 18.49 or 18.53 of the GEM Listing Rules, no option should be granted until such results has been announced pursuant to the requirements of Chapter 16 of the GEM Listing Rules. The period during which no option may be granted will cover any period of delay in the publication of the above results announcements.
- (ii) Any grant of options to a connected person of the Company or its associates (as such terms are defined in the GEM Listing Rules) requires the approval of independent non-executive Directors (excluding an independent non-executive Director who is a proposed Grantee of the options).

Where any grant of options to a substantial shareholder or an independent non-executive Director or their respective associates will result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period

up to the date of grant to such person exceed of 0.1% of the Shares in issue and an aggregate value, based on the closing price of the Shares at the date of each grant, of HK\$5 million, such proposed grant of options must be subject to shareholders' prior approval at a general meeting taken on a poll. All connected persons must abstain from voting.

- (iii) Shareholders' approval as described above is also required for any change in the terms of options granted to a Participant who is a substantial shareholder, an independent non-executive Director or their respective associates.
- (iv) The above-mentioned circular must contain the particulars as required by the GEM Listing Rules from time to time, including:
- details of the number and terms of the options (including the subscription price) to be granted to each such connected person or its associates (which must be fixed before the date of shareholders' approval) and the date of board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price;
 - a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Participant) as to voting; and
 - information relating to any Directors who are trustees of the Post-IPO Share Option Scheme or have a direct or indirect interest in the trustees.

The requirements for the granting of options to a Director or chief executive of the Company set out above shall not apply where the Participant is only a proposed director or chief executive of the Company.

(f) Time of exercise of option

An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during the period ("**Option Period**") to be determined and notified by the Board to each Grantee which period of time shall commence on the expiration of three years after the date of grant of the option and expire on such date as determined by the Board provided that the option may not be exercised after the expiration of 10 years from the date of grant of the option.

The Post-IPO Share Option Scheme does not require a minimum period for which an option must be held nor a performance target which must be achieved before an option can be exercised, unless the Board otherwise determined and stated in the offer of the grant of options to the Grantee.

(g) Rights are personal to Grantee

An option shall not be transferable or assignable and is personal to the Grantee.

(h) Rights on cessation of employment by death

If the Grantee who is an employee ceases to be an employee of the Group by reason of death and none of the events referred to in sub-paragraph (i) below as a ground for termination of his or her employment by the Group arises, his or her personal representative(s) may exercise the option in full (to the extent not already exercised) within a period of 12 months from the date of death, failing which the option will lapse.

(i) Rights on cessation of employment by dismissal

If the Grantee who is an employee ceases to be an employee of the Group on the grounds of summary dismissal or that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable (to the extent not already exercised) on the date of termination of his employment.

(j) Rights on cessation of employment for other reasons

If the Grantee who is an employee leaves the services or ceases to be a Director for any reason other than an event referred to in sub-paragraphs (h) and (i) above as a ground for termination, his or her option may be exercised (to the extent not already exercised) at any time within 3 months following the date of cessation which date shall be the last actual working date with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which the option will lapse.

(k) Effects of alterations to share capital

In the event of any alteration in the capital structure of the Company whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision, or reduction of the share capital of the Company whilst any option remains exercisable such corresponding alterations (if any) shall be made in the aggregate number of Shares in respect of which options may be granted subject to outstanding options so far as unexercised and/or the subscription price per Share of each outstanding option as the independent financial adviser or the auditors of the Company shall certify in writing to the Board to be in their opinion as fair and reasonable (except in the case of a capitalisation issue where no such certification is required). Any such alterations will be made on the basis that the aggregate subscription price payable on the full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value or which would increase the proportion of the

issued share capital of the Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration. The issue of securities as consideration in a transaction is not to be regarded as circumstances requiring any such alteration.

(l) Rights on a general offer

In the event of a general offer by way of takeover being made to all holders of Shares (or all such holders other than the offeror, any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the Grantee (or, where appropriate, his or her legal personal representative(s)) shall be entitled to exercise the option (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional to its full extent or to the extent specified in such notice.

(m) Rights on winding up

In the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee (or his or her legal personal representatives) may by notice in writing to the Company (such notice to be received by the Company not later than four business days prior to the proposed shareholders' meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall as soon as possible and in any event no later than the day immediately prior to the date of the proposed shareholders' meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise.

(n) Right on compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed in connection with the scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same date as it gives notice of the meeting to its members or creditors to consider such a scheme or arrangement and the Grantee (or his or her personal representative(s)) may by notice in writing to the Company accompanied by the remittance for the exercise price in respect of the relevant option (such notice to be received by the Company not later than two business days prior to the proposed meeting) exercise the option (to the extent not already exercised) either to its full extent or to the extent specified in such notice, and the Company shall as soon as possible and in any event no later than the date immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the Grantee which falls to be issued on such exercise credited as fully paid and register the Grantee as holder thereof.

(o) Ranking of Share

Shares allotted and issued on the exercise of options will rank *pari passu* with the other fully-paid Shares in issue on the date of issue, save that holders of such Shares will not be entitled to participate in any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of issue.

(p) Alterations to the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme may be altered in any respect by the Board except that the provisions of the Post-IPO Share Option Scheme relating to the matters set out in rule 23.03 of the GEM Listing Rules cannot be altered to the advantage of the Grantees except with the prior approval of shareholders of the Company in general meeting with Participants and their respective associates abstaining from voting. Any alteration to the terms and conditions of the Post-IPO Share Option Scheme or any change to the terms of options granted under the Post-IPO Share Option Scheme which are of a material nature must be approved by shareholders of the Company in general meeting, except where the alterations take effect automatically under the existing terms of the Post-IPO Share Option Scheme. Any change to the authority of the Board or the scheme administrators in relation to any alteration of the terms of the Post-IPO Share Option Scheme shall be approved by shareholders of the Company in general meeting. The amended terms of the Post-IPO Share Option Scheme or the options to be granted thereunder must still comply with the relevant requirements of Chapter 23 of the GEM Listing Rules from time to time.

(q) Termination of the Post-IPO Share Option Scheme

The Company by ordinary resolution in general meeting or the Board may at any time terminate the operation of the Post-IPO Share Option Scheme and in such event no further options will be offered or granted but in all other respects the provisions of the Post-IPO Share Option Scheme shall remain in full force and effect. Options which are granted during the life of the Post-IPO Share Option Scheme and remain unexpired immediately prior to the termination of the operation of the Post-IPO Share Option Scheme shall continue to be exercisable in accordance with their terms of issue within one month after the termination of the operation of the Post-IPO Share Option Scheme. Upon such termination, details of the options granted (including options exercised or outstanding) under the Post-IPO Share Option Scheme are required under the GEM Listing Rules to be disclosed in the circular to shareholders seeking approval of the first new scheme established thereafter.

(r) Cancellation of options granted

Subject to the consent from the relevant Grantee, the Board may in its discretion cancel options previously granted to, and yet to be exercised by, such Grantee. If such cancellation has been approved by shareholders of the Company in general meeting and there are sufficient available unissued options (excluding such cancelled options) for such re-issuance under the Scheme Mandate Limit, such options which were cancelled may be re-issued after such cancellation provided that the re-issued options shall only be granted in compliance with the terms of the Post-IPO Shares Option Scheme.

(s) Period of Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme will remain valid for a period of 10 years commencing on 8 September 2005 after which no further options will be granted but the provisions of the Post-IPO Share Option Scheme shall in all other respects remain in full force and effect and options which are granted during the life of the Post-IPO Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

(t) Performance target

Unless the Directors otherwise determined and stated in the offer of the grant of options, a grantee is not required to achieve any performance target before any option granted under the Post-IPO Share Option Scheme can be exercised.

(u) Lapse of Option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in sub-paragraphs (h), (j), (l) or (m) respectively;
- (iii) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in sub-paragraph (n);
- (iv) the date on which a Grantee (being an employee) ceases to be an employee by reason of the termination of his or her employment on grounds of summary dismissal or that he or she has been guilty of serious misconduct or has become insolvent or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty;
- (v) the date which is 3 months after the date on which the Grantee ceases to be an Employee of the Group in the case of resignation, retirement, expiry of employment contract or on any other ground on which an employer would be entitled to terminate his or her employment at common law or pursuant to any applicable laws or under the Grantee's service contract with the Company or its relevant subsidiary;
- (vi) the date of the commencement of the winding-up of the Company; or
- (vii) the date on which the Grantee sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option or enter into any agreement so to do in breach of the Post-IPO Share Option Scheme.

(v) Conditions of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional on (a) the GEM Listing Committee of the Stock Exchange granting approval of the Post-IPO Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may be issued pursuant to the exercise of options granted under the Post-IPO Share Option Scheme, (b) the Post-IPO Share Option Scheme being approved by the shareholders of the Company at its general meeting and (c) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of that agreement or otherwise. Application will be made to the GEM Listing Committee of the Stock Exchange for the approval of the Post-IPO Share Option Scheme, the granting of the options under the Post-IPO Share Option Scheme and the listing of and permission to deal in the Shares which may be issued pursuant to the exercise of the options granted under the Post-IPO Share Option Scheme.

Present status of the Post-IPO Share Option Scheme

The Post-IPO Share Option Scheme is conditional on the GEM Listing Committee granting the listing of and permission to deal in the Shares to be issued as mentioned therein.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Post-IPO Share Option Scheme. Under the Scheme Mandate Limit in force, immediately after the Placing, the Company is entitled to grant options to subscribe up to 16,800,000 Shares under the Post-IPO Share Option Scheme, representing 10% of the issued shares of the Company on the Listing Date (without taking into account any Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option).

The Post-IPO Share Option Scheme shall be administered by a committee including the independent non-executive Directors.

Application has been made to the GEM Listing Committee for the approval for the listing of and permission to deal in 16,800,000 Shares which may be issued pursuant to the exercise of the options granted under the Post-IPO Share Option Scheme.

Pre-IPO Share Option Scheme

Summary of terms of the Pre-IPO Share Option Scheme

The purpose of the Pre-IPO Share Option Scheme is to recognise the contribution of certain persons to the growth of the Group and/or to the listing of Shares on GEM. The principal terms of the Pre-IPO Share Option Scheme, adopted and approved by a written resolutions of the shareholders of the company dated 8 September 2005 are substantially the same as the terms of the Post-IPO Share Option Scheme except that:

- (a) the subscription price for Shares is set out in the table below;

- (b) the total number of Shares subject to the Pre-IPO Share Option Scheme is 20,160,000;
- (c) save for the options which have been conditionally granted under the Pre-IPO Share Option Scheme (see below) no further options will be offered or granted under the Pre-IPO Share Option Scheme;
- (d) the Options granted under the Pre-IPO Share Option Scheme are to full-time employees, consultants or advisers of the Group and to those persons who have contributed to the Group or to the listing of the Placing Shares on GEM;
- (e) there are no similar restrictions on the maximum number of Shares and the granting of options as summarised in sub-paragraphs (d) and (e) of the paragraph headed “Summary of terms of the Post-IPO Share Option Scheme” respectively under the paragraph headed “Post-IPO Share Option Scheme” in this Appendix;
- (f) any cancellation of options granted but not exercised shall be approved by shareholders of the Company in general meeting, and the relevant grantees and their respective associates (as defined in the GEM Listing Rules) shall abstain from voting. Any vote taken at general meeting for approving such cancellation shall be taken by poll. Cancelled options shall not be re-issued; and
- (g) the Company by ordinary resolution in general meeting may at any time terminate the operation of the Pre-IPO Share Option Scheme and in such event, no further option should be offered but the provisions of the Pre-IPO Share Option Scheme shall remain in all other respects in full force and effect in respect of any options granted prior thereto but not yet exercised at the time of termination. Options which are granted and which remain unexpired immediately prior to the termination of the Pre-IPO Share Option Scheme shall continue to be exercisable in accordance with their terms of issue.

Outstanding options under the Pre-IPO Share Option Scheme

As at the date of this prospectus, options to subscribe for an aggregate of 20,160,000 Shares (representing approximately 12% of the issued share capital of the Company upon completion of the Placing and the Capitalisation Issue but before enlargement by the allotment and issue of Shares pursuant to the exercise of the Offer Size Adjustment Option and options granted under the Pre-IPO Share Option Scheme and any options which may be granted under the Post-IPO Share Option Scheme) have been granted by the Company under the Pre-IPO Share Option Scheme to the executive Directors and the full time employees. The allotment of Shares upon the exercise of share options is conditional upon, inter alia, the GEM Listing Committee granting the listing of and permission to deal in the Shares in issue and to be issued as mentioned herein. All of these options granted under the Pre-IPO Share Option Scheme will only be exercised after the expiry of six months from the Listing Date but in any event not later than five years from the Listing Date. Options shall lapse in accordance with the terms of the Pre-IPO Share Option Scheme. There are different levels of contribution to the Group at different stages of development and growth and are also based on the seniority of such grantee. A discount to the subscription price of the options under the Pre-IPO Share Option Scheme was granted as a recognition to such contributions. Particulars of the outstanding options granted are set out below:

Name of grantees	Title/position of grantees	Address of grantees	Number of underlying Shares under the options	Approximate percentage of issued share capital immediately following the completion of the Placing and the Capitalisation Issue upon full exercise of the options (but before enlargement by the allotment and issue of Shares pursuant to the exercise of the Offer Size Adjustment Option and the Pre-IPO Share Options)	Subscription price per share (HK\$)	Moratorium Period
Directors						
Yan Siu Wai	Executive director	E8, Kwun Tien Mansion, Tai Koo Shing, Hong Kong	4,435,200	2.64%	0.80	12 months
Leung Kwok Yin	Executive director	Flat D, 3/F, 39 Kennedy Road, Block 2, Hong Kong	2,956,800	1.76%	0.80	12 months
Bao Jisheng	Executive director	6A, 29 Xinjian Road, Yuyao, Zhejiang, PRC	3,360,000	2%	0.80	12 months
Sub-total:			<u>10,752,000</u>			

Name of grantees	Title/position of grantees	Address of grantees	Number of underlying Shares under the options	Approximate percentage of issued share capital immediately following the completion of the Placing and the Capitalisation Issue upon full exercise of the options (but before enlargement by the allotment and issue of Shares pursuant to the exercise of the Offer Size Adjustment Option and the Pre-IPO Share Options)	Subscription price per share (HK\$)	Moratorium Period
Senior Management						
Bao Xiangqian	Deputy general manager	Suite 204, No. 135 Lane 688 South Huanchengxi Road, Ningbo, PRC	2,688,000	1.6%	0.80	6 months
Wang Shengkang	Deputy general manager	Suite 202, No.7 North Section of Fuxiang, Yuyao, Zhejiang, PRC	560,000	0.33%	0.56	6 months
Wu Dingfeng	Technical controller	Suite 401, No.41, Changxin Xincun, Changxin Road, Yuyao, Zhejiang, PRC	560,000	0.33%	0.56	6 months
Cheung Wai Tak	Qualified accountant & Company secretary	Room 101, Block 35, Heng Fa Chuen, Chai Wan, Hong Kong	2,360,000	1.4%	0.56	6 months
Sub-total:			<u>6,168,000</u>			
Other Employee						
Xiong Jing Hui	Manager of Finance Department	Suite 102, No.217, South Section Four of Fuxiang, Yuyao, Zhejiang, PRC	530,000	0.32%	0.56	N/A
Xie Zhang Jie	Manager of Research and Development Department	Wuxin Village, Yuyao, Zhejiang, PRC	530,000	0.32%	0.56	N/A
Liu Qi Hua	Production Manager	Suite 502, No.56, East Jiangnan Xincheng, Yuyao, Zhejiang, PRC	530,000	0.32%	0.56	N/A
Xiang Li Feng	Workshop Supervisor	Suite 301, No.2, Yuzhang Xincun, Yuyao, Zhejiang, PRC	530,000	0.32%	0.56	N/A
Xie Jian Bo	Deputy Manager of Finance Department	Suite 601, No.120, South Section One of Fuxiang, Yuyao, Zhejiang, PRC	280,000	0.17%	0.56	N/A
Zhang Hui Hua	Workshop Supervisor	Suite 52, No. 14-404, Fuxiang Road, Yuyao, Zhejiang, PRC	280,000	0.17%	0.56	N/A
Jin Yong	Deputy Production Manager	The Second Village, Yuyao, Zhejiang, PRC	280,000	0.17%	0.56	N/A
Wu Yin Fen	Deputy Manager of International Business Department	Tanjialing, Southwest Road, Yuyao, Zhejiang, PRC	280,000	0.17%	0.56	N/A
Sub-total:			<u>3,240,000</u>			
Total:			<u><u>20,160,000</u></u>			

There will be no further grant of options under the Pre-IPO Share Option Scheme after the Latest Practicable Date and before the date of listing.

The full exercise of these options would result in the issues of 20,160,000 Shares, representing, in aggregate, approximately 12% of the issued shares of the Company immediately following completion of the Placing and the Capitalisation Issue (but before enlargement by the allotment and issue of the Shares pursuant to the exercise of the Offer Size Adjustment Option and the options granted or to be granted under the Share Option Schemes). This would result in a reduction in the percentage ownership of the shareholders and may result in dilution in the net tangible assets per Share from approximately HK\$0.222 to approximately HK\$0.198 as at 30 June 2005.

Application has been made to the GEM Listing Committee for the approval for the listing of and permission to deal in 20,160,000 Shares which may be issued pursuant to the exercise of the options granted and under the Pre-IPO Share Option Scheme. Each of the executive Directors, Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Mr. Bao Jisheng, has undertaken with the Company and the Stock Exchange that he will not exercise the Pre-IPO Share Options if the exercise of any part or parts of which will result in the drop of the public float to a level below 25% of the issued share capital of the Company from time to time.

2. Estate duty and tax indemnity

Each of Mr. Yan Siu Wai, Excel Strength, Willhero, Mr. Leung Kwok Yin, Hero Talent and Joyday has pursuant to a deed of indemnity (“Deed of Indemnity”) dated 5 October 2005 (being the material contract referred to in sub-paragraph (h) of the paragraph headed “Summary of material contracts” of this Appendix) given to the Company joint and several indemnities in connection with, among other matters, taxation in Hong Kong and other relevant jurisdictions, Hong Kong estate duty which might be incurred by any member of the Group by reason of any transfer of property (within the meaning of section 35 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) and taxation which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional (“Effective Date”).

Under the Deed of Indemnity, Mr. Yan Siu Wai, Excel Strength, Willhero, Mr. Leung Kwok Yin, Hero Talent and Joyday (collectively the “Indemnifiers”) will not be liable under the Deed of Indemnity for taxation where, among other matters,

- (a) to the extent that provision has been made for such taxation or claim in the audited accounts of the members of the Group or any of them up to 30 June 2005 (the “Accounts”); or

- (b) to the extent of any provisions or reserve made for such taxation in the Accounts which is finally established to be an over-provision or an excessive reserve in which case the liability of the Indemnifiers (if any) in respect of taxation shall be reduced by an amount not exceeding such provision or reserve, provided that the amount of any such provision or reserve applied to reduce the Indemnifiers' liability in respect of taxation shall not be available in respect of any such liability arising thereafter; or
- (c) to the extent that such taxation falling on any of the members of the Group in respect of their current accounting periods or any accounting period commenced on or after 1 July 2005 unless liability for such taxation would not have arisen but for some act or omission of, or transaction voluntarily effected by a member of the Group (whether alone or in conjunction with some other act, omission or transaction) with the prior written consent or agreement of the Indemnifiers other than any such act, omission or transaction:
- (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets on or before 30 June 2005; or
 - (2) carried out, made or entered into pursuant to a legally binding commitment created on or before 30 June 2005 or pursuant to any statement of intention made in this prospectus; or
 - (3) consisting of any member of the Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- (d) to the extent that such taxation claim arises or is incurred as a result of the imposition of taxation claim as a consequence of any retrospective change in the law coming into force after the Effective Date or to the extent that such taxation claim arises or is increased by an increase in rates of taxation after the Effective Date with retrospective effect.

The Directors have been advised that no material liability for estate duty under the laws of Cayman Islands is likely to fall on the Group.

3. **Litigation**

As at Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

4. Sponsor

Deloitte & Touche Corporate Finance Limited as sponsor have made an application to the GEM Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including shares to be issued upon the exercise of Offer Size Adjustment Option) and options granted under the Pre-IPO Share Option Scheme and options which may be granted under the Post-IPO Share Option Scheme.

5. Preliminary expenses

The estimated preliminary expenses of the Company are approximately US\$3,000 (approximately HK\$23,400) and are payable by the Company.

6. Promoters

- (a) The Company has no promoter.
- (b) Save as disclosed herein, within the two years preceding the date of this prospectus, no amount or benefit has been paid, or given to the promoters named in sub-paragraph (a) above in connection with the Placing or the related transactions described in this prospectus.

7. Qualification of experts

The qualifications of the experts who have given opinions in this prospectus and/or whose names are included in this prospectus are as follows:

Name	Qualification
Deloitte & Touche Corporate Finance Limited	a deemed licensed corporation for types 1, 4 and 6 regulated activities under the SFO
RSM Nelson Wheeler	Certified Public Accountants
Grant Sherman Appraisal Limited	Property Valuer
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Hills & Co.	PRC attorneys-at-law

8. Consents of experts

Deloitte & Touche Corporate Finance Limited, RSM Nelson Wheeler, Grant Sherman Appraisal Limited, Conyers Dill & Pearman and Hills & Co. do have given and have not withdrawn their respective written consents to the issue of this prospectus with copies of their reports, valuation, letters or opinions (as the case may be) and the references to their names or summaries of opinions included in this prospectus in the form and context in which they respectively appear.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

10. Taxation of holders of Shares

(a) *Hong Kong*

Dealings in Shares registered on the Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty. The sale, purchase and transfer of Shares are subject to Hong Kong stamp duty, the current rate of which is 0.2% of the consideration or, if higher, the fair value of the Shares being sold or transferred.

Profit from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

The Shares are Hong Kong property for the purposes of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong) and, accordingly, Hong Kong estate duty may be payable in respect thereof on the death of an owner of Shares.

(b) *Cayman Islands*

Under present Cayman Islands law, transfers and other dispositions of Shares are exempt from Cayman Islands stamp duty.

(c) *Professional tax advice recommended*

Intending holders of Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in Shares or exercising any rights attaching to them. It is emphasised that none of the Company, the Directors or the other parties involved in the Placing can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercising any rights attaching to them.

11. Miscellaneous

- (a) Save as disclosed in this prospectus:
- (i) within the two years preceding the date of this prospectus:
 - (aa) no share or loan capital of the Company or any of its subsidiaries has been issued, agreed to be issued or is proposed to be issued fully or partly paid either for cash or for a consideration other than cash;
 - (bb) no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the company or any of its subsidiaries; and
 - (cc) no commission (excluding underwriting and sub-underwriting commissions) has been paid or payable for subscribing or agreeing to subscribe or procuring or agreeing to procure subscription for any shares.
 - (ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option; and
 - (iii) the Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 30 June 2005 (being the date to which the latest audited combined financial statements of the Group were made up).
- (b) The Company has no founder shares, management shares or deferred shares.
- (c) Subject to the provisions of the Companies Law, the register of members of the Company will be maintained in the Cayman Islands by Bank of Bermuda (Cayman) Limited of P.O. Box 513 GT, Strathvale House, North Church Street, George Town, Grand Cayman, Cayman Islands, British West Indies and a branch register of members of the Company will be maintained in Hong Kong by Tricor Investor Services Limited of Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's share registrar in Hong Kong and may not be lodged in the Cayman Islands.
- (d) All necessary arrangements have been made to enable the Shares to be admitted to CCASS.