JF Household Furnishings Limited

捷豐家居用品有限公司

(Incorporated in the Cayman Islands with limited liability)

PLACING

Sponsor

Deloitte.
德勤
Deloitte & Touche Corporate Finance Ltd.

Lead Manager

聯發證券有限公司
LUEN FAT SECURITIES CO. LTD.

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional advisers.

JF Household Furnishings Limited
捷豐家居用品有限公司

(Incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING

Number of Placing Shares	**:**	**42,000,000 Shares (subject to the Offer Size Adjustment Option)**
Placing Price	**:**	**Not more than HK$0.96 per Share and expected to be not less than HK$0.80 per Share**
Nominal value	**:**	**HK$0.01 each**
Stock code	**:**	**8310**

Sponsor

Deloitte.
德勤

Deloitte & Touche Corporate Finance Ltd.

Lead Manager

聯發證券有限公司
LUEN FAT SECURITIES CO. LTD.

Co-managers

Grand Vinco Capital Limited
Sanfull Securities Limited
Sino Grade Securities Limited
Sun Hung Kai International Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified under the section headed "Documents delivered to the Registrar of Companies in Hong Kong" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance of Hong Kong. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any of the other documents referred to above.

The Placing Price is expected to be fixed by agreement between the Lead Manager (for itself and on behalf of the other Underwriters) and the Company at or before the Price Determination Time, which is scheduled at or before 5:00 p.m. on 5 October 2005, or such later time and/or date as may be agreed between the Company and the Lead Manager (for itself and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005. If the Lead Manager (for itself and on behalf of the other Underwriters) and the Company are unable to reach an agreement on the Placing Price at or before 5:00 p.m. on 5 October 2005 (or such later time and/or date as agreed by the Company and the Lead Manager (for itself and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005), the Placing will not become unconditional and will lapse immediately. The Placing Price will not be more than HK$0.96 per Share and is expected to be not less than HK$0.80 per Share. The Lead Manager (for itself and on behalf of the other Underwriters) may, with the consent of the Company, reduce the indicative Placing Price range below to that as stated in this prospectus at any time prior to the Price Determination Time. If this occurs, notice of reduction of the indicative Placing Price range will be published in the GEM website.

Prospective investors of the Placing should note that the Underwriters are entitled to terminate their obligations under the Underwriting Agreement by notice in writing to the Company given by the Lead Manager (for itself and on behalf of the other Underwriters) upon the occurrence of any of the events set out under the sub-section headed "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time at or prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

5 October 2005

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination of GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information of GEM-listed issuers.

2005
(Note 1)

Price Determination Time *(Note 2)* at or before . . . . 5:00 p.m. on Wednesday, 5 October *(Note 5)*

Allotment of Placing Shares on or before . . . . Monday, 10 October *(Note 5)*

Announcement of Placing Price and the level of indication of interest in the Placing, to be published on the GEM website at *www.hkgem.com* on or before . . . . Wednesday, 12 October *(Note 5)*

Despatch of share certificates on or before *(Note 3)* . . . . Wednesday, 12 October *(Note 5)*

Dealings in the Shares on GEM to commence on *(Note 4)* . . . . Thursday, 13 October *(Note 5)*

Notes:

1. All times and dates refer to Hong Kong time and date, except as otherwise stated.

2. The Price Determination Time is scheduled at or before 5:00 p.m. on 5 October 2005 (or such later time and/or date as agreed between the Company and the Lead Manager (for itself and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005). If the Lead Manager (for itself and on behalf of the other Underwriters) and the Company are unable to reach an agreement on the Placing Price at or before 5:00 p.m. on 5 October 2005 (or such later time and/or date as agreed by the Company and the Lead Manager (for itself and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005), the Placing will not become unconditional and will lapse immediately.

3. The share certificates for the Placing Shares to be distributed via CCASS are expected to be deposited into CCASS on or before 12 October, 2005 for credit to the relevant CCASS participants' or investor participants' stock accounts designated by the Lead Manager, the placees or their respective agents (as the case may be). No temporary documents or evidence of title will be issued.

4. For details of the structure of the Placing, including conditions thereof, please refer to the section headed "Structure and conditions of the Placing" of this prospectus.

5. If there is any change of the above expected timetable, a separate announcement will be made by the Company.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not included in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Lead Manager, the Underwriters, the directors of any of them, or any other person involved in the Placing.

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This summary aims to give you an overview of the information contained in this prospectus. Since it is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out under the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

INTRODUCTION

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

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

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

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

Note:

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

SALES TO IKEA

The Group has built up established business relationship with IKEA, a global home furnishings retailer and a major customer of the Group, the goods of which are sold in more than 30 countries or regions through over 180 retail stores all over the world. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, sales to IKEA accounted for approximately 84%, 85%, 88% (unaudited) and 92% respectively of the Group's total turnover and approximately 98%, 89%, 98% (unaudited) and 92% respectively of the Group's sales of furnishings and home products and accessories.

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

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

1. *Establishing the Group's own brand*

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

2. *Metal processing work*

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

PRODUCTION FACILITIES

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

PRINCIPAL STRENGTHS OF THE GROUP

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

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

FUTURE PLANS AND BUSINESS OBJECTIVES

The mission of the Group is to become one of the largest furnishings and home products and accessories manufacturers in the PRC with world-class standards in product design, quality control and effective cost control.

To accomplish its mission, the Group plans to adopt and implement the following strategies:

Expand production plant and facilities to increase production capacity

One of the key strengths of the Group is its flexibility in manufacturing a variety of furnishings and home products and accessories, which is supported by the continuous introduction of new production lines and facilities. During the Track Record Period, the Group has acquired new production facilities and constructed new production plants at the Group's existing production facilities. In order to cope with increasing market demand, the Group plans to expand its existing production lines and facilities to increase production capacity. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) for the acquisition of a piece of land of 44,105 sq.m. for its expansion plan and construct major production buildings in the coming two years. The construction of the production plants will be divided into two phases. The first phase will commence in early 2006 which consists of a construction of a new production plant with total gross floor area of approximately 15,000 sq.m.. The first phase is expected to be completed by end of 2006. The second phase is to construct another production plant with total gross floor area of approximately 15,000 sq.m. which will commence in 2007. The new production plant will be equipped with new production machineries and facilities including pressing machines, surface treatment facilities, and fully automatic sheet metal cutting machines.

At present, the Group outsources part of its production process to third party subcontractors. With the acquisition of new production machineries, the Group plans to reduce outsourcing of the production process to a minimum and achieve a better control of the quality, time and cost of production.

Product diversification

With in-depth experience and technical expertise of the Group in the production of metal products, in addition to stainless steel, the Group plans to diversify its range of furnishings and home products and accessories by using other types of raw materials. The Group will establish a new research and development team to specialise in production techniques using different types of steel. In addition, the Group will also consider expanding its use of other raw materials such as wood in its furnishings and home products and accessories.

Explore new business opportunities and broaden the Group's customer base

The Group plans to broaden its customer base in the home furnishings market. In this respect, the Group plans to expand its marketing department and to increase sales staff and representative offices to explore new business opportunities in both the PRC and overseas, thereby increasing revenue to the Group. Further, as a medium to long term business strategy, the Group also plans to establish its own brandname and sell its own line of furnishings and home products and accessories to different retailers in the PRC and in global market through such marketing effort and sales and distribution network. The Directors are of the view that while IKEA continues to be one of the most important customers of the Group, the Group will at the same time continue to broaden its customer base by targeting potential customers such as large home furnishings retailers or distributors.

Improve the overall management systems

In order to attain the mission of the Group to achieve world-class standard in the industry, the Group plans to allocate more resources on the improvement of its management system. The Group will implement the ISO 9000 standard and enterprise resources planning system to further improve its operational efficiencies. The Group plans to recruit professional consultants to assist it to attain the ISO 9000 standard, enterprise resources planning system implementation and the re-engineering of the overall management system.

REASONS FOR THE PLACING AND USE OF PROCEEDS

Based on the Placing Price of HK$0.88 per Share (being the midpoint of the indicative Placing Price range of HK$0.80 to HK$0.96 per Share), the net proceeds from the Placing, after deduction of expenses payable by the Group, are estimated to be approximately HK$26.4 million. The Directors believe that the listing of the Shares on GEM will enhance the Group's profile and the net proceed of the Placing will strengthen the Group's financial position to pursue its business plans as set out in the section "Future plans and business objectives" in this prospectus. The Directors intend to apply the net proceeds as follows:

- approximately HK$20.9 million will be used for expansion of production plant and facilities;

- approximately HK$3.7 million will be used for technological improvements on stainless steel production facilities and development of products using other metals;

- approximately HK$0.9 million will be used to explore new business opportunities and strengthening the Group's sales and marketing team; and

- approximately HK$0.9 million will be used to upgrade production management system and purchase of new computer hardware and software to implement enterprise resources planning system.

In the event that the Placing Price is fixed at HK$0.96 per Share, being the highest point of the indicative Placing Price range, the net proceeds will be increased by approximately HK$3.2 million, based on the assumption that the Offer Size Adjustment Option is not exercised. The Directors intend to apply approximately HK$3.2 million as additional general working capital of the Group. In the event that the Placing Price is fixed at HK$0.80 per Share, being the lowest point of the indicative Placing Price range, the net proceeds will be reduced by approximately HK$3.2 million, based on the assumption that the Offer Size Adjustment Option is not exercised. In such circumstances, the Directors intend to reduce the application of the proceeds for the purchase of a piece of land and construction of a new production plant by approximately HK$3.2 million. If the Offer Size Adjustment Option is exercised in full, based on the Placing Price of HK$0.88 per Share (being the midpoint of the indicative Placing Price range of HK$0.80 to HK$0.96 per Share), the additional net proceeds from the Placing, after deduction of expenses payable by the Group, are estimated to be approximately HK$5.3 million and the Directors intend to apply the whole amount as general working capital.

To the extent of the net proceeds from Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short term deposit accounts with financial institutions in Hong Kong and/or the PRC.

TRADING RECORD

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

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

Notes:

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

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

PLACING STATISTICS

	Based on a Placing Price of HK$0.80 per Share	Based on a Placing Price of HK$0.96 per Share
Market capitalisation of the Company *(Note 1)*........	HK$134.40 million	HK$161.28 million
Adjusted net tangible asset value per Share *(Note 2)*..	HK$0.36	HK$0.40

Notes:

1. The market capitalisation is calculated based on 168,000,000 Shares in issue, which does not take into account (i) any Shares falling to be issued upon exercise of the Offer Size Adjustment Option or pursuant to the exercise of options which have been granted under the Pre-IPO Share Option Scheme or the Post-IPO Share Option Scheme; and (ii) any Shares which may be allotted and issued by the Company pursuant to the general mandate to allot and issue Shares.

2. The adjusted net tangible asset value per Share is arrived at after making the adjustments to the audited net tangible assets of the Company as at 30 June 2005 referred to under the paragraph headed "Proforma adjusted net tangible assets" in the section headed "Financial information" of this prospectus and on the basis of a total of 168,000,000 Shares in issue and to be issued as mentioned herein.

RISK FACTORS

The Directors consider the Group's business is subject to a number of risk factors which are summarised as below, details of which are set out in the section headed "Risk factors" of this prospectus:

Risks relating to the Group

- Reliance on major customer
- Price fluctuations of raw materials
- Reliance on major suppliers
- Risk of relocation
- Reliance on key management
- Nature of OEM business
- PRC preferential tax treatment

- Dividends
- Historical advances to related companies and certain Directors
- Dilution of shareholders' interests in the Company
- Profit distribution from the PRC subsidiaries

Risks relating to the industry

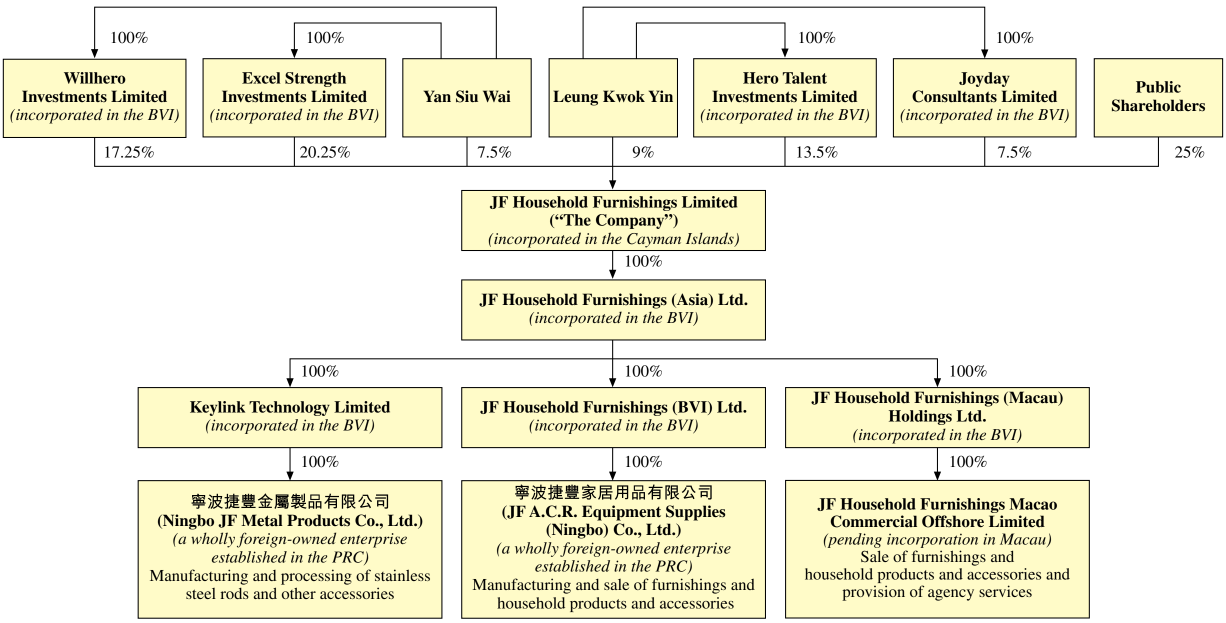
- Competition
- Environmental risks
- Statistics

Risks relating to the PRC

- Political and economic factors
- Legal and regulatory considerations
- Exchange rate risks

SHAREHOLDING STRUCTURE

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



	Date on which interest was first acquired	Total investment amount HK$	Approximate average cost per Share HK$	Number of Shares immediately after completion of the Placing and the Capitalisation Issue	%	Moratorium period *(Note 3)*
Initial Management Shareholders						
Willhero *(Notes 1 & 5)*	23 February 2004	*(Note 7)*	0.07136 *(Note 8)*	28,980,000	17.25	12 months *(Note 4)*
Excel Strength *(Notes 1 & 5)*	23 February 2004	*(Note 7)*	0.07136 *(Note 8)*	34,020,000	20.25	12 months *(Note 4)*
Mr. Yan Siu Wai	30 December 1992	Approximately 5,394,722.36 *(Note 7)*	0.07136 *(Note 8)*	12,600,000	7.5	12 months *(Note 4)*
Mr. Leung Kwok Yin	30 December 1992	Approximately 3,596,481.57 *(Note 8)*	0.07136 *(Note 9)*	15,120,000	9	12 months *(Note 4)*
Hero Talent *(Notes 2 & 6)*	23 February 2004	*(Note 8)*	0.07136 *(Note 9)*	22,680,000	13.5	12 months *(Note 4)*
Joyday *(Notes 2 & 6)*	23 February 2004	*(Note 8)*	0.07136 *(Note 9)*	12,600,000	7.5	12 months *(Note 4)*
Public Shareholders				42,000,000	25	Not applicable
				168,000,000	100.00	

Notes:

1. The entire issued share capital of each of Excel Strength and Willhero is owned by Mr. Yan Siu Wai.

2. The entire issued share capital of each of Hero Talent and Joyday is owned by Mr. Leung Kwok Yin.

3. The moratorium period represents a period commencing on the date by reference to which disclosure of the shareholding of the Initial Management Shareholder is made in this prospectus and ending on the date which is 12 months after the Listing Date.

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

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

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

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

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

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

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

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

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

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

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

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

9. The approximate average cost per Share held by Mr. Yan Siu Wai, Excel Strength and Willhero is calculated by dividing the total consideration and subscription price directly and indirectly paid by Mr. Yan Siu Wai historically for the purpose of subscribing and/or acquiring equity interests and share capital of the members of the Group by the number of Shares held by such Initial Management Shareholders immediately after the Capitalisation Issue.

10. The approximate average cost per Share held by Mr. Leung Kwok Yin, Hero Talent and Joyday is calculated by dividing the total consideration and subscription price directly and indirectly paid by Mr. Leung Kwok Yin historically for the purpose of subscribing and/or acquiring equity interests and share capital of the members of the Group by the number of Shares held by such Initial Management Shareholders immediately after the Capitalisation Issue.

In this prospectus, unless the context otherwise requires, the following expressions have the meanings set out below.

"Articles of Association" or "Articles"	the articles of association of the Company (as amended from time to time)
"associate(s)"	has the meaning ascribed thereto in the GEM Listing Rules
"Better Asia"	Better Asia Limited, a company incorporated in BVI with limited liability on 2 January 2001 under the former name of Better Asia Group Limited and was renamed to its present name on 13 November 2003 and is owned as to 60% by Mr. Yan Siu Wai and as to 40% by Mr. Leung Kwok Yin, the executive Directors and the Initial Management Shareholders
"Board"	the board of Directors
"business day"	any day (other than a Saturday) on which banks in Hong Kong are generally open for business
"BVI"	the British Virgin Islands
"Capitalisation Issue"	the issue of Shares to be made upon the capitalisation of part of the share premium account of the Company referred to in the section headed "Written resolutions of all shareholders of the Company passed on 8 September 2005" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"China" or "PRC"	the People's Republic of China which for the purpose of this prospectus, excludes Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC
"Company"	JF Household Furnishings Limited, a company incorporated in the Cayman Islands on 19 January 2005 with limited liability
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"CSIL Milano"	CSIL Milano, a furniture industry research institute in Italy
"Director(s)"	the director(s) of the Company

"DTCF" or "Sponsor"	Deloitte & Touche Corporate Finance Limited, a company which is deemed licensed under SFO for the regulated activities of dealing in securities, advising on securities and advising on corporate finance
"Excel Strength"	Excel Strength Investments Limited, a company incorporated in BVI with limited liability on 16 November 2004, which entire issued capital is wholly owned by Mr. Yan Siu Wai, and an Initial Management Shareholder of the Company
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM website"	the website of GEM with the domain name of www.hkgem.com
"Group"	the Company and its subsidiaries
"Heat Exchanger Business"	the business of manufacturing and selling of heat exchangers disposed of by JF Ningbo in July 2004
"Hero Talent"	Hero Talent Investments Limited, a company incorporated in BVI with limited liability on 10 November 2004 which entire issued capital is wholly owned by Mr. Leung Kwok Yin, and an Initial Management Shareholder of the Company
"HKSCC"	Hong Kong Securities Clearing Company Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"HK$" or "HK dollars" and "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
"IKEA"	a global home furnishings retailer founded in Sweden in 1943, which sells a wide range of functional home furnishings products
"Independent Third Party" or "Independent Third Parties"	person(s) or company(ies) which is/are independent of any member of the Group, the Directors, the chief executives, the Initial Management Shareholders and the substantial shareholders of the Company, its subsidiaries and any of their respective associates

"Initial Management Shareholder(s)"	the initial management shareholder(s) (as defined in the GEM Listing Rules) of the Company, being Excel Strength, Hero Talent, Joyday, Willhero, Mr. Yan Siu Wai and Mr. Leung Kwok Yin, as described in the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus
"JF Asia"	JF Household Furnishings (Asia) Ltd., a company incorporated in BVI with limited liability on 21 October 2004 and a wholly owned subsidiary of the Company
"JF BVI"	JF Household Furnishings (BVI) Ltd., a company incorporated in BVI with limited liability on 21 October 2004 and a wholly owned subsidiary of the Company
"JF Equipment Supplies (Ningbo)"	捷豐冷凍器材(寧波)有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.), the former name of JF Ningbo
"JF Macau"	JF Household Furnishings Macao Commercial Offshore Limited, a company to be incorporated in Macau with limited liability which will be a wholly owned subsidiary of the Company upon its incorporation
"JF Macau Holdings"	JF Household Furnishings (Macau) Holdings Ltd., a company incorporated in BVI with limited liability on 7 December 2004 and a wholly owned subsidiary of the Company
"JF Metal"	寧波捷豐金屬製品有限公司 (Ningbo JF Metal Products Co., Ltd.), a Sino-foreign equity joint venture established in the PRC on 8 July 2003 which was converted to a wholly foreign owned enterprise on 11 October 2004, and a wholly owned subsidiary of the Company
"JF Ningbo"	寧波捷豐家居用品有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.), a wholly foreign owned enterprise established in the PRC on 30 December 1992 under the former name of JF Equipment Supplies (Ningbo) and was renamed to its present name on 23 June 2004 and a wholly owned subsidiary of the Company
"Joyday"	Joyday Consultants Limited, a company incorporated in BVI with limited liability on 3 November 2004 which entire issued capital is wholly owned by Mr. Leung Kwok Yin, and an Initial Management Shareholder of the Company
"Keylink"	Keylink Technology Limited, a company incorporated in BVI with limited liability on 9 August 2004 and a wholly owned subsidiary of the Company

"Latest Practicable Date"	29 September 2005, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained in this prospectus
"Lead Manager"	Luen Fat Securities Company Limited
"Listing Date"	the date on which the trading of the Shares on GEM commences, which is expected to be 13 October 2005
"Lock-up Period"	commencing on the date by reference to which disclosure of the shareholding of the Initial Management Shareholder is made in this prospectus and ending on the 12 months period from the Listing Date (both dates inclusive)
"Macau"	the Macau Special Administrative Region of the PRC
"Main Board"	the securities market operated by the Stock Exchange (excluding the option market) other than GEM
"OECD"	the Organization for Economic Co-operation and Development
"OEM"	original equipment manufacturer
"Offer Size Adjustment Option"	the option granted by the Company to the Underwriters exercisable by the Lead Manager (for itself and on behalf of the other Underwriters) to require the Company to allot and issue up to an aggregate of 6,300,000 additional new Shares at the Placing Price, details of which are described in the sub-section headed "Offer Size Adjustment Option" under the section headed "Structure and conditions of the Placing" of this prospectus
"Placing"	the conditional placing of the Placing Shares at the Placing Price, subject to the Offer Size Adjustment Option, as further described in the section headed "Structure and conditions of the Placing" in this prospectus
"Placing Price"	the final price per Placing Share in Hong Kong dollars (exclusive of brokerage, the Stock Exchange trading fee, investor compensation levy and SFC transaction levy) at which the Placing Shares are to be subscribed for pursuant to the Placing
"Placing Shares"	42,000,000 new Shares initially being offered by the Company for subscription under the Placing, together with, where relevant, any additional Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option

"Post-IPO Share Option Scheme"	the share option scheme conditionally adopted by the shareholders of the Company on 8 September 2005, the principal terms of which are set out in the paragraph headed "Summary of terms of the Post-IPO Share Option Scheme" in Appendix V to this prospectus
"PRC Government" or "State"	the central government of the PRC including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof
"Pre-IPO Share Option Scheme"	the share option scheme approved and adopted by the Company on 8 September 2005, the principal terms of which are summarised in the paragraph headed "Summary of terms of the Pre-IPO Share Option Scheme" in Appendix V to this prospectus
"Price Determination Time"	the time at which the Placing Price will be fixed, which is scheduled at or before 5:00 p.m. on 5 October 2005, or such later time and/or date as may be agreed between the Company and the Lead Manager (for itself and on behalf of the other Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005
"Relevant Securities"	has the meaning ascribed thereto under Rule 13.15 of the GEM Listing Rules
"Reorganisation"	the corporate reorganisation which the Group underwent in preparation of the listing of the Shares on GEM, details of which are set out in the paragraph headed "Corporate reorganisation" in Appendix V to this prospectus
"RMB"	Renminbi, the lawful currency of the PRC
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share Option Schemes"	the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme
"Shares"	share(s) of HK$0.01 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Track Record Period"	the period comprising the two financial years ended 31 December 2004 and the six months ended 30 June 2005

"Underwriters"	the underwriters of the Placing named in the paragraph headed "Underwriters" in the section headed "Underwriting" in this prospectus
"Underwriting Agreement"	the underwriting agreement dated 5 October 2005 and entered into by, the Company, the Sponsor, the Initial Management Shareholders, the executive Directors, the Lead Manager, the co-managers of the Placing and the Underwriters, particulars of which are summarised in the section headed "Underwriting" in this prospectus
"US" or "United States"	the United States of America
"US$"	US dollars, the lawful currency of the United States
"Willhero"	Willhero Investments Limited, a company incorporated in BVI with limited liability on 16 November 2004 which entire issued capital is wholly owned by Mr. Yan Siu Wai, and an Initial Management Shareholder of the Company
"WTO"	World Trade Organisation
"%"	per cent.
"Yuyao Jiefeng Air-Con"	餘姚捷豐空調設備有限公司 (Yuyao Jiefeng Air Conditioning Equipment Co. Ltd), a Sino-foreign equity joint venture established in the PRC and is currently held as to 45.7% by Better Asia and 54.3% by Independent Third Parties
"Zhejiang Shuaikang"	浙江帥康電氣股份有限公司 (Zhejiang Shuaikang Electric Stock Co. Ltd), a joint stock company established in the PRC with limited liability on 28 December 2000 which issued share capital is owned as to 4.55% by Mr. Bao Jisheng, an executive Director. Further, Mr. Yan Siu Wai is a director of Zhejiang Shuaikang

All dates and times in this prospectus refer to Hong Kong time unless otherwise stated.

Unless otherwise specified in this prospectus, amounts denominated in Renminbi or US$ have been translated, for the purpose of illustration only, into Hong Kong dollars as follows:

RMB1.06 = HK$1.00
US$1.00 = HK$7.8

No representation is made that any amounts in RMB, HK$ or US$ could have been or could be converted at the above rate or at any other rates or at all.

For ease of reference, the names of the PRC established companies or entities have been included in this prospectus in both Chinese and English languages. In the event of inconsistency, the Chinese version shall prevail in respect of the names of such PRC established companies and entities.

Potential investors should carefully consider all of the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with an investment in the Company before making any investment decision in relation to the Company.

RISKS RELATING TO THE GROUP

Reliance on major customer

The Group has derived and may continue to derive a significant portion of the Group's revenue from a limited number of customers, including IKEA. During the Track Record Period, the Group's products were sold to a total of 8 customers with which the Group had maintained business relationships for 1 to 5 years. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, sales to IKEA, the major customer of the Group, accounted for approximately 84%, 85% , 88% (unaudited) and 92% respectively of the Group's total turnover and approximately 98%, 89%, 98% (unaudited) and 92% respectively of the Group's sales of furnishings and home products and accessories. The Group has not entered into any long-term sales agreement with any of its customers. There is no assurance that the Group's customers, including IKEA, will continue to purchase the Group's products in the future. In the event that the Group's existing customers, including IKEA, cease to purchase or reduce substantially the amount of products they purchase from the Group in the future, the turnover and profitability of the Group will be adversely affected.

Price fluctuations of raw materials

Stainless steel is a major raw material of furnishings products manufactured by the Group. For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, purchases of stainless steel accounted for approximately 58%, 62%, 65% (unaudited) and 78% respectively of the total purchases of the Group. During the Track Record Period, stainless steel prices have experienced high fluctuations. In the event that there are high fluctuations of stainless steel prices, the cost and the gross profit margin of the Group's products may be adversely affected.

Reliance on major suppliers

For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, purchases from the five largest suppliers represented approximately 47%, 39%, 35% (unaudited) and 45% respectively of the Group's total purchases. During the same period, purchases from the largest supplier accounted for approximately 20%, 12%, 13% (unaudited) and 21% respectively of the Group's purchases. As at the Latest Practicable Date, the Group has not entered into any long term contracts with its suppliers. In the event that any of its major suppliers cease to supply to the Group and the Group is not able to find suitable replacements, the Group's production activities may be disrupted and its profitability may, therefore, be adversely affected.

Risk of relocation

The Group's office and production facilities are located in Yuyao City, Ningbo, Zhejiang Province, the PRC. Details of the land use rights and buildings ownership in relation to such office and production facilities ("Subject Premises") are set out in the valuation certificates in Appendix III to this prospectus. According to the Directors, the location of the Subject Premises may be designated as non-industrial zone ("Rezoned Location") in the near future. Although there is no concrete time frame for enforcing the rezoning policy, according to the transitional arrangement of the People's Government of Yuyao, enterprises operating in the Rezoned Location are encouraged to relocate to a new site which will be offered by the People's Government of Yuyao ("Relocation Site") with relocation compensation ("Relocation Compensation") paid by the People's Government of Yuyao. As at the Latest Practicable Date, the People's Government of Yuyao has not initiated any negotiation or agreement as to the Relocation Site and the Relocation Compensation and no time schedule or plans for such relocation has been provided by the People's Government of Yuyao. On 19 August 2005, the Group entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) for the acquisition of a piece of land of 44,105 m^2 ("New Production Site") located at Yaobei Industrial New Zone of the Yuyao City for a term of 50 years commencing from the date of issue of the State-owned Land Use Rights Certificate at a consideration of RMB15,745,485 (approximately HK$14,854,231) of which RMB3,500,000 (approximately HK$3,301,887) had been paid upon the signing of the Transfer Agreement by internal resources of the Group and the remaining balance of RMB12,245,485 (approximately HK$11,552,344) will be payable by the Group within 6 months from the date of the Transfer Agreement. The Directors confirmed that the remaining balance would be partly settled by internal resources of the Group or bank financing or both and partly by the net proceeds of the Placing. The New Production Site is identified and acquired on one hand for relocation purpose and on the other hand to facilitate the expansion of production plant of the Group notwithstanding that there is no time frame for relocation.

There is no guarantee that no interruptions to production will be caused by the relocation. Further, there is no assurance that such relocation, if implemented, will not pose other adverse effects on the Group, including but not limited to the incurrence of additional financial costs. Should the Group encounter any difficulties and/or suffer any unforeseeable damages during the relocation, the Group's business and financial position may be hampered.

Reliance on key management

The success of the Group, to a significant extent, is attributable to the expertise and experience of Mr. Yan Siu Wai, Mr. Leung Kwok Yin and Mr. Bao Jisheng, the executive Directors, and Mr. Bao Xiangqian, the deputy general manager of the Group, in the areas of strategic planning, materials sourcing, product development, marketing and management. The cessation of services by any of the executive Directors or the deputy general manager in the future may adversely affect the Group's operations and business.

Nature of OEM business

For each of the two years ended 31 December 2004 and the six months ended 30 June 2004 and 2005, the Group's turnover were derived from products which were sold on an OEM basis and marketed under the brand names of another company. As the Group has no rights to make final decision on the design of its products sold on an OEM basis, any unfavourable changes in the market trend and the popularity of the relevant brands may adversely affect the Group's business, results of operation and financial position.

PRC preferential tax treatment

Under the applicable PRC tax law, regulation and notices, JF Ningbo and JF Metal have been granted tax concessions by the PRC tax authorities. In accordance with the applicable enterprise income tax law of the PRC, each of JF Ningbo and JF Metal is exempted from the PRC enterprise income tax for two years starting from the first profitable year of its operations and enjoys 50% tax deduction for the following three years. JF Ningbo's first profitable year of operation was 2001. Accordingly, JF Ningbo will cease to enjoy the above tax deduction in 2006. Thereafter, in accordance with the "Regulations encouraging foreign investments" promulgated by the State Council of the PRC, JF Ningbo, being a foreign-invested enterprise, will be able to enjoy 50% tax deduction if it exports 70% or more of the turnover of its products. For each of the two years ended 31 December 2004, the Group had exported more than 70% of the turnover of its products. However, there is no assurance that JF Ningbo will be able to maintain the export of 70% or more of the turnover of its products in the future and hence enjoy the 50% tax deduction. Moreover, if there are any adverse changes in the regulatory regime of the PRC tax regulation or the policy in granting preferential tax treatment to foreign enterprises in the PRC, the Group's business and its profitability may be adversely affected.

Dividends

The Group declared dividends of approximately HK$11 million and approximately HK$4.5 million for each of the two years ended 31 December 2004 respectively. Such dividends represented approximately 82.3% and 24.0% of the Group's net profits attributable to shareholders for the same period. There is no assurance that the Group will declare or pay dividends to its shareholders following the listing of Shares on GEM and the above mentioned dividend payments should not, therefore, be used as a reference or basis by which future dividend payments on the Shares are determined.

Historical advances to related companies and certain Directors

During the Track Record Period, the Group had been involved in certain advancing activities ("Advancing Activities") with related companies and certain Directors. Details of such advances are disclosed under the paragraph headed "Due from directors and due from related companies" in the section headed "Financial Information" of this prospectus. According to the PRC legal advisers of the Company, the advancing activities made between the Group and the related companies established in the PRC were in breach of《貸款通則》("Finance Regulations"). As advised by the PRC legal advisers, the Group is exposed to the possible penalty imposed by The People's Bank of China which suggests a fine equivalent to 1 to 5 times of the income (i.e. interests) generated from such advances, there is yet no assurance that no other scale of fine, penalty or administrative action may be imposed upon or initiated against the relevant subsidiaries of the Group for such advancing activities with related companies and certain Directors should the relevant PRC laws and regulations change in the future whereupon the Group's business operation and/or financial position may be adversely affected.

Dilution of shareholders' interests in the Company

The Group has in place the Pre-IPO Share Option Scheme under which options ("Pre-IPO Share Options") in aggregate of 20,160,000 Shares were outstanding as at the Latest Practicable Date. As at the date of this prospectus, Pre-IPO Share Options to subscribe for a total of 20,160,000 Shares (representing 48% of the total number of the Placing Shares), of which 13,440,000 Shares will be issued at the exercise price of HK$0.80 (being the lowest point of the indicative Placing Price range of HK$0.80 to HK$0.96 per Placing Share) each and 6,720,000 Shares will be issued at the exercise price of HK$0.56 each, representing no discount and a discount of 30% of the lowest point of the indicative Placing Price range respectively, including Pre-IPO Share Options to subscribe for a total of 10,752,000 Shares which have been granted to three executive Directors, Pre-IPO Share Options to subscribe for a total of 6,168,000 Shares which have been granted to four members of the senior management, Pre-IPO Share Options to subscribe for a total of 3,240,000 Shares have been granted to eight other employees of the Group. The full exercise of these Pre-IPO Share Options would result in the issue 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 options granted or to be granted under any of the Share Option Schemes and assuming the Offer Size Adjustment Option is not exercised at all). Further, the Group has also in place the Post-IPO Share Option Scheme under which options may be granted after listing of the Shares. No options have been granted under the Post-IPO Share Option Scheme as at the date of this prospectus. For a description of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme, please see the paragraph headed "Share Option Schemes" in Appendix V to this prospectus. On the basis of 168,000,000 Shares in issue before the enlargement by the issue of Shares pursuant to the full exercise of the Pre-IPO Share Options, the full exercise of the options granted under the Pre-IPO Share Option Scheme would result in a dilution in the percentage shareholdings 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.

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.

Profit distribution from the PRC subsidiaries

The Company is an investment holding company. Substantially all of the Group's business operations are conducted through the operating subsidiaries of the Company established in the PRC. The Company's ability to pay dividends is dependent upon the earnings of its subsidiaries in the PRC and their distribution of funds to the Company, primarily in the form of dividends. The profit available for distribution of the subsidiaries established in the PRC is determined in accordance with accounting principles generally accepted in the PRC (the "PRC GAAP"), the amount of which may differ from that arrived at by adopting accounting principles generally accepted in Hong Kong (the "Hong Kong GAAP"). There is no assurance that the distributable profits of the Company's PRC subsidiaries will be comparable to the reported accounting profits under the Hong Kong GAAP. Accordingly, the Company may not have sufficient dividends from its PRC subsidiaries to realise the profit distribution to the Company's shareholders.

RISKS RELATING TO THE INDUSTRY

Competition

The furnishings and home products and accessories industry is highly competitive. The Group faces competition from manufacturers in Hong Kong and the PRC as well as from other parts of the world. Should the Group fail to maintain or improve its competitiveness, the profitability of the Group and its prospects will be adversely affected.

Environmental risks

The Group's production processes produce waste water and dust. In this connection, the Group's production is subject to the PRC environmental protection laws and regulations. However, amendment of the existing laws or regulations may impose additional requirements and the Group's compliance with such laws or regulations may require the Group to incur additional capital expenditure or subject to other obligations or liabilities, which may have a material adverse effect on the Group's business, operations and financial condition.

Statistics

Certain facts and statistics referred to and presented in the section headed "Industry overview" in this prospectus are derived from various official and unofficial sources. The official sources include the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, as disclosed on pages 32 and 33, the website of U.S. Bureau of Economic Analysis, as disclosed on page 33, Report FT900 published by the Bureau of Census, Foreign Trade Division of the U.S. in December 2004 and the website of U.S. Census Bureau, as disclosed on page 35 in this prospectus. The Directors believe that such official information may be useful to prospective investors and they have exercised due care to reproduce the same in this prospectus. However, such official information has not been independently verified by the Group, the Sponsor and their advisers. Therefore, neither the Group nor the Sponsor makes any representation as to the accuracy or completeness of such facts and official statistics, which may not be consistent with other information compiled within or outside Hong Kong. Accordingly, such official information should not be unduly relied upon.

RISKS RELATING TO THE PRC

Political and economic factors

The Group's operation is mainly located in the PRC. Therefore, the Group's financial performance and operations may directly or indirectly be affected by the general economic, political, legal and social conditions prevailing in the PRC.

The PRC economy is a socialist market economy which operates under annual, five and ten years plans. Over the years, the PRC Government has introduced substantial economic and political reforms. However, many laws and regulations governing economic and political matters implemented by the PRC Government are still at early development stage and their interpretation and enforcement are less certain when compared to other western countries. As the Group's existing operation is mainly in the PRC, it is subject to administrative reviews and approval by various national and local PRC Government authorities. Any changes in the economic, political and social conditions prevailing in the PRC may lead to changes in the PRC Government policies which may then affect the business and prospects of the Group.

Legal and regulatory considerations

Since 1979, many laws and regulations governing economic matters have been introduced in the PRC. However, the interpretation of PRC laws are sometimes influenced by policy changes reflecting domestic political and social changes. In addition, the enforcement of PRC laws are sometimes uncertain and sporadic. It is also sometimes difficult to enforce a foreign judgment in the PRC.

Many PRC laws and regulations include broad principles and the PRC Government has gradually laid down implementation rules and has continued to refine and modify such laws and regulations. As the PRC legal system develops, the introduction of new laws or the refinement and modification of existing laws may affect foreign investors. There can be no assurance that future changes in legislation or the interpretation of legislation will not have an adverse effect upon the Group.

Exchange rate risks

Starting from 21 July 2005, the PRC has reformed the exchange rate regime by moving into a managed floating rate regime based on market supply and demand with reference to a basket of currencies. This has resulted in the Renminbi appreciating against the US dollar and the Hong Kong dollar by approximately 2%. However, the value of the Renminbi may also be changed due to the PRC government's policy and the international economic and political development. Despite such developments, the Renminbi is still not a freely convertible currency. In addition, there is no assurance that Renminbi will not become volatile against other currencies. As most of the Group's purchases of components and materials are denominated in US dollars and Renminbi and the Group's sales are principally denominated in US dollars and Renminbi, if the Group is not able to hedge effectively against Renminbi fluctuations, there is no assurance that future movements in the exchange rate of Renminbi and other currencies will not have an adverse effect on the operations and financial condition of the Group.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules (Subsidiary Legislation V of Chapter 571 of the Laws of Hong Kong) and the GEM Listing Rules for the purposes of giving information to the public with regard to the Group. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;

(b) there are no other matters the omission of which would make any statement in this prospectus misleading; and

(c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

This prospectus is published solely in connection with the Placing, which is sponsored by the Sponsor and managed by the Lead Manager and, subject to the Company and the Lead Manager agreeing the Placing Price, is fully underwritten by the Underwriters. Information about the Underwriters and the underwriting arrangement are set out in the section headed "Underwriting" of this prospectus.

PLACING SHARES TO BE OFFERED IN HONG KONG ONLY

No action has been taken to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstance in which such offer or invitation is not authorised or to any person to whom it is unlawful to make an unauthorised offer or invitation.

The Placing Shares are offered for subscription solely on the basis of the information contained, and the representations made, in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, officers, employees or agents or any other persons involved in the Placing. No offer of Placing Shares may be made to the public in the Cayman Islands.

Each person or entity acquiring the Placing Shares will be required to confirm, or deemed by his or her or its acquisition of the Placing Shares, that he or she or it is aware of the restrictions relating to the Placing Shares as described in this prospectus.

STRUCTURE OF THE PLACING

The Placing comprises 42,000,000 new Shares for subscription at the Placing Price. The number of Placing Shares is subject to adjustment upon the exercise of the Offer Size Adjustment Option as described under the section headed "Structure and conditions of the Placing" of this prospectus.

Details of the structure of the Placing, including its conditions, are set out in the section headed "Structure and conditions of the Placing" of this prospectus.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for granting of the listing of, and permission to deal in, its existing Shares, the Placing Shares, Shares to be issued pursuant to the Capitalisation Issue, Shares to be issued upon the exercise of the Offer Size Adjustment Option, any Shares which may fall to be issued pursuant to the exercise of options which were or may be granted under the Share Option Schemes.

No part of the Company's share or loan capital is listed or dealt in on any other stock exchange. As at the date of this prospectus, the Company is not seeking or proposing to seek listing of, or permission to deal in, its securities on any other stock exchange.

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at all times after the listing, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential applicants for the Placing Shares are recommended to consult their professional advisers if they are in doubt as to taxation implications in relation to the subscription for, holding, purchase, disposal of or dealing in the Placing Shares or exercising their rights thereunder. It is emphasised that none of the Company, the Directors, the Sponsor, the Underwriters and their respective directors, officers, employees and agents or any other persons involved in the Placing accepts responsibility for any tax effects on, or liability of, holders of Shares resulting from the subscription for, holding, purchase, disposal of or dealing in or the exercise of any rights in relation to the Placing Shares.

REGISTRATION AND STAMP DUTY

All Shares in issue and to be issued pursuant to the Capitalisation Issue and the Placing will be registered on the Company's branch register of members to be maintained in Hong Kong.

Dealings in Shares registered on the Company's Hong Kong branch register will be subject to Hong Kong stamp duty.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the GEM Listing Committee grants the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

DEALINGS AND SETTLEMENT

Dealings in the Shares are expected to commence on 13 October 2005.

Shares will be traded in board lots of 5,000 Shares each.

The GEM stock code for the Shares is 8310.

The Company will not issue any temporary documents of title.

Dealings in the Shares on GEM will be effected by participants of the Stock Exchange whose bid and offer quotations will be made available on GEM website and the Stock Exchange's teletext page information system.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. Only certificates for Shares registered on the Company's Hong Kong branch share register of members will be valid for delivery in respect of transactions effected on GEM.

If you are unsure about the procedures for dealings and settlement arrangements on the Stock Exchange on which Shares are listed and how such arrangements will affect your rights and interests, you should consult your stockbroker or other professional advisers.

Name	Address	Nationality
Executive Directors		
Mr. Yan Siu Wai	E8 Kwun Tien Mansion Tai Koo Shing Hong Kong	Chinese
Mr. Leung Kwok Yin	39 Kennedy Road 3/F, Flat D Block 2 Hong Kong	Chinese
Mr. Bao Jisheng	6A, 29 Xinjian Road Yuyao, Zhejiang The People's Republic of China	Chinese
Independent non-executive Directors		
Mr. Kwan Kai Cheong	Flat A, 18/F Block 2 Cavendish Heights 33 Perkins Road Jardine's Lookout Hong Kong	Australian
Mr. Garry Alides Willinge	Flat B, 12/F Tower 1 The Victoria Towers 188 Canton Road Kowloon Hong Kong	Australian
Mr. Yu Hon Wing, Allan	Flat A1, 27/F Grandview Tower 130 Kennedy Road Wanchai Hong Kong	British

Sponsor	Deloitte & Touche Corporate Finance Limited 21st Floor Wing On Centre 111 Connaught Road Central Hong Kong
Lead Manager	Luen Fat Securities Company Limited 23/F, Euro Trade Centre 21-23 Des Voeux Road Central Hong Kong
Co-managers	Grand Vinco Capital Limited Unit 4909-4910 49/F, The Center 99 Queen's Road Central Hong Kong
	Sanfull Securities Limited 20/F, Far East Consortium Building 121 Des Voeux Road Central Hong Kong
	Sino Grade Securities Limited Room 6B & 6D, Tai Po Commercial Centre 152-172 Kwong Fuk Road Tai Po New Territories
	Sun Hung Kai International Limited Level 12, One Pacific Place 88 Queensway Hong Kong
Legal advisers to the Company	*As to Hong Kong Law* Tracy Ong & Co. 3908A, 39th Floor Jardine House 1 Connaught Place Central Hong Kong

	As to Cayman Islands Law Conyers Dill & Pearman Century Yard Cricket Square Hutchins Drive George Town Grand Cayman Cayman Islands British West Indies
	As to PRC Law Hills & Co. 11th Floor, Central Business Building No. 88 Fu Hua 1st Road Futian Central Business District Shenzhen PRC
Legal advisers to the Sponsor and the Underwriters	Dibb Lupton Alsop 41st Floor, Bank of China Tower 1 Garden Road Central Hong Kong
Auditors & reporting accountants	RSM Nelson Wheeler 7th Floor Allied Kajima Building 138 Gloucester Road Hong Kong
Property valuer	Grant Sherman Appraisal Limited Room 904, 9/F, Harbour Centre 25 Harbour Road Wanchai Hong Kong

Registered office	Century Yard Cricket Square Hutchins Drive PO Box 2681GT George Town Grand Cayman British West Indies
Head office and principal place of business in Hong Kong	15th Floor EIB Tower 4-6 Morrison Hill Road Wanchai Hong Kong
Website	www.jffurnishings.com (The contents of the above website do not form part of this prospectus)
Audit committee	Mr. Kwan Kai Cheong *(Chairman)* Mr. Garry Alides Willinge Mr. Yu Hon Wing, Allan
Compliance officer	Mr. Yan Siu Wai
Company secretary	Mr. Cheung Wai Tak (CPA(US), CPA)
Qualified accountant	Mr. Cheung Wai Tak (CPA(US), CPA)
Authorised representatives	Mr. Yan Siu Wai E8 Kwun Tien Mansion Tai Koo Shing Hong Kong Mr. Cheung Wai Tak (CPA(US), CPA) 101, Block 35 Heng Fa Chuen Chai Wan Hong Kong
Cayman Islands principal share registrar and transfer office	Bank of Bermuda (Cayman) Limited PO Box 513GT Strathvale House North Church Street George Town Grand Cayman Cayman Islands British West Indies

Hong Kong branch share registrar and transfer office	Tricor Investor Services Limited Ground Floor Bank of East Asia Harbour View Centre 56 Gloucester Road Wanchai Hong Kong
Compliance adviser	Deloitte & Touche Corporate Finance Limited 21st Floor Wing On Centre 111 Connaught Road Central Hong Kong
Principal bankers	DBS Bank (Hong Kong) Limited 11/F, The Center 99 Queen's Road Central Central Hong Kong Bank of China No. 58 Shun Shui Road South Yuyao, Zhejiang China

The information provided in this section and, as disclosed elsewhere in this prospectus relating to the industry background is derived in part or extracted from various official and unofficial sources which the Directors generally believe to be useful to prospective investors. The official sources include the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, as disclosed on pages 32 and 33, the website of U.S. Bureau of Economic Analysis, as disclosed on page 33, Report FT900 published by the Bureau of Census, Foreign Trade Division of the U.S. in December 2004 and the website of U.S. Census Bureau, as disclosed on page 35 in this prospectus. The Company has taken reasonable care in the extraction, compilation and reproduction of the information presented in this section. However, the Company, the Sponsor and the Underwriters cannot guarantee the accuracy of such information and statistics derived from those official sources. Such information and statistics may not be consistent with other information and statistics compiled within or outside Hong Kong and accordingly, should not be unduly relied upon.

WORLD ECONOMIC OUTLOOK

Economic growth and the ensuing improvement in living standard have direct bearing on the demand for furnishings and household products. It is notable that although world economic growth this year may slow from the robust rate recorded in 2004, prospects beyond 2005 appear favorable.

The OECD has projected the U.S. real gross domestic growth (GDP) to fall from 4.4% in 2004 to 3.3% in 2005 and recover to 3.6% in 2006. On the back of this snapback and as mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, the OECD has forecasted a significant pick-up of domestic demand in the euro area in 2005-2006. Real GDP growth of the euro area is expected to stay relatively flat at 1.9% in 2005 and rebound strongly to 2.5% in 2006.

Also mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, based on the assumption that oil prices and exchange rates remain stable, the real GDP growth of the total OECD, which consists of 30 member countries in the world, is expected to decelerate from 3.6% in 2004 to 2.9% in 2005 and bounce to 3.1% in 2006. In addition, the OECD has expected the world trade growth to maintain the 9.5% momentum achieved in 2004, projecting annual growth of 9.0% in 2005 and 9.5% in 2006.

Key Economic Indicators

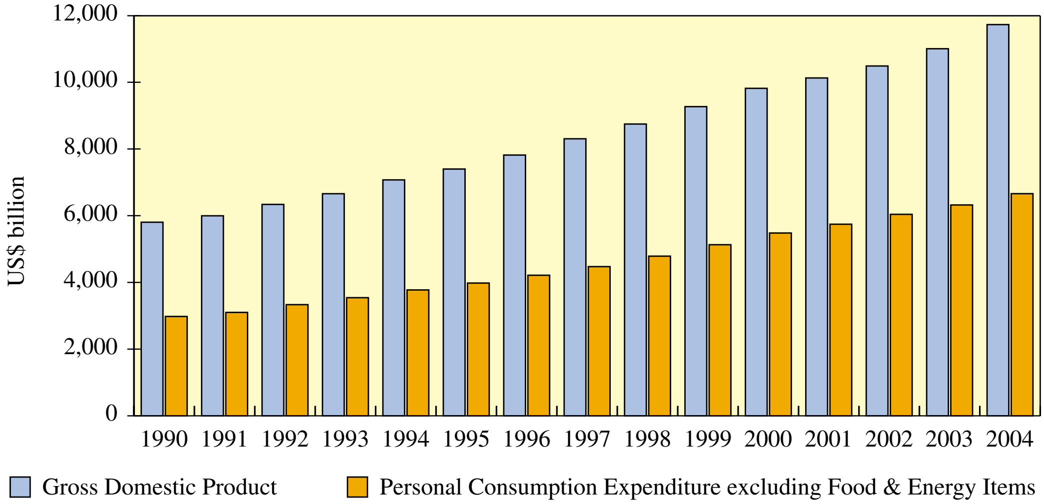
Real GDP Growth	**2004**	**2005**	**2006**
United States	4.4%	3.3%	3.6%
Japan	4.0%	2.1%	2.3%
Euro Area	1.8%	1.9%	2.5%
Total OECD	**3.6%**	**2.9%**	**3.1%**
World Trade Growth	**9.5%**	**9.0%**	**9.5%**

Sources: Preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004

DEMAND FOR FURNISHINGS AND HOUSEHOLD PRODUCTS

The demand for furnishings and household products is a function of personal consumption expenditure. As the living standard of the world's population grows increasingly affluent, personal consumption expenditure rises at a faster rate. According to U.S. Bureau of Economic Analysis and as mentioned in the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004, the U.S. is a case in point. Exhibit 1 shows that while the U.S. GDP has increased by 102.1% between 1990 and 2004, personal consumption expenditure excluding food and energy items has increased by 123.6%. Along similar vein, personal consumption expenditure (excluding food and energy items) as a percentage of GDP has risen from 51.3% in 1990 to 56.8% in 2004.

Exhibit 1: GDP vs. Personal Consumption Expenditure



Source: U.S. Bureau of Economic Analysis (based on the preliminary edition of OECD Economic Outlook No. 76 dated 25 November 2004)

The U.S. example indicates that as disposable income rises, consumers incline to allocate a larger proportion of earnings on the place they live and smaller proportion on food and clothing. As a result, demand for home furnishings increases.

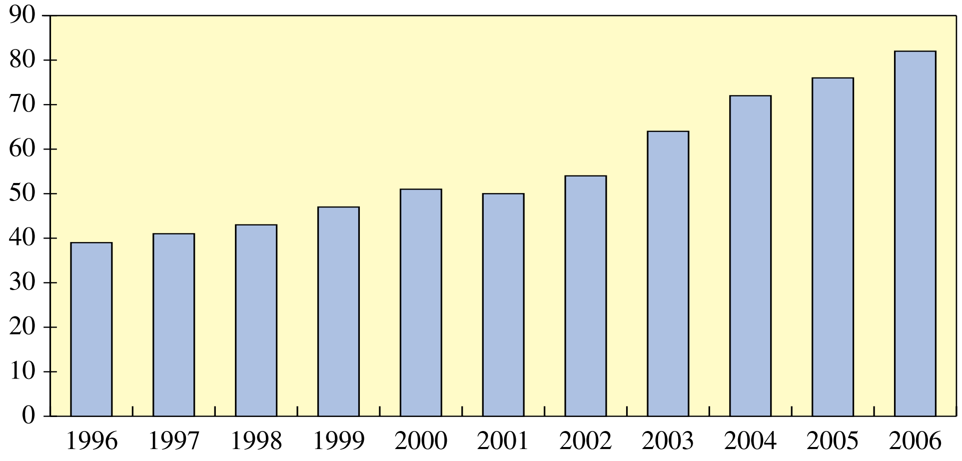
THE WORLD FURNITURE INDUSTRY

As revealed in the newsletter published by MÖBELMARKT in January 2005, world production of furniture is estimated to be worth about US$220 billion (approximately HK$1,716 billion) per annum in 2004 up from US$200 billion (approximately HK$1,560 billion) in 2002, according to the estimation made by CSIL Milano, a leading furniture research and consulting firm in Italy. Of the 2002 total, about US$150 billion (approximately HK$1,170 billion) is for domestic consumption in the producing countries, while about US$50 billion (approximately HK$390 billion) makes up total international furniture trade.

Global furniture trade estimated by CSIL Milano had grown from about US$54 billion (approximately HK$421 billion) in 2002 to about US$72 billion (approximately HK$561 billion) in 2004, a rise of approximately 33.3%. CSIL Milano has further estimated that furniture trade will rise by about 13.9% to US$82 billion (approximately HK$639 billion) in 2006. The leading furniture importers are the US, Germany, the United Kingdom, France, Japan and Canada. The leading furniture exporters are Italy, China, Germany, Canada, the US and Poland.

For 2005, CSIL Milano has forecasted a rise in furniture consumption of between 1% to 3% in most key European countries.

Exhibit 2: World trade of furniture 1996-2006
(in current US$ billion)

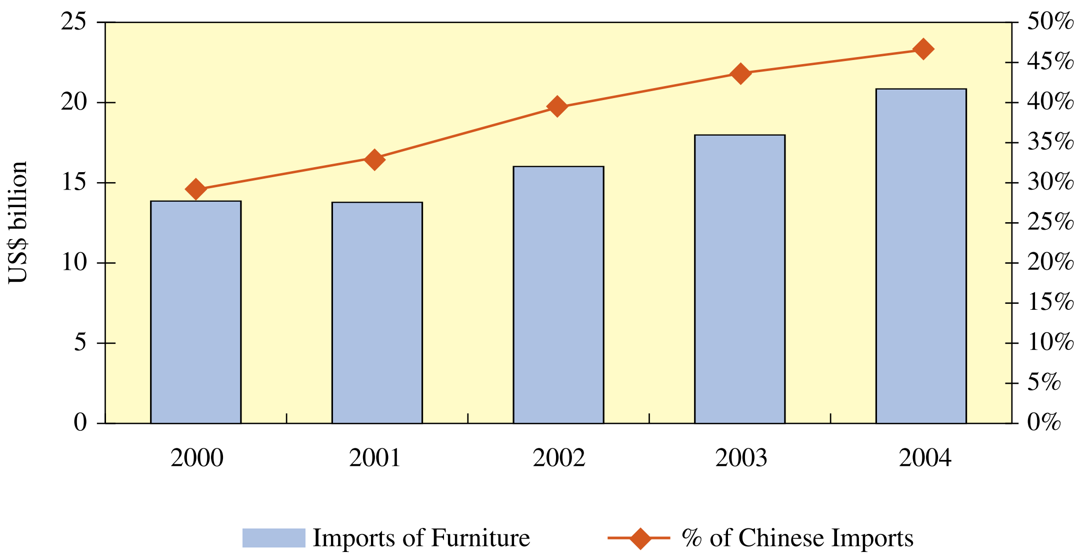


Source: CSIL Milano from industry and official data as published by MÖBELMARKT in the newsletter dated January 2005

THE FURNITURE INDUSTRY IN CHINA

World furniture markets have become increasingly open. The emergence of China as a low-cost supplier is changing the demand-supply dynamics in the global furniture industry. The rapid increase in furniture imports into the U.S. exemplifies the current environment. According to Report FT900 published by the Bureau of Census, Foreign Trade Division of the US, in December 2004, from 2000 through 2004, total imports into the U.S. of furniture and household goods rose from US$13.9 billion (approximately HK$108 billion) to US$20.9 billion (approximately HK$163 billion), a compound annual growth of 10.8%. In the same period, Chinese imports into the U.S. of furniture and household goods surged from US$4 billion (approximately HK$31 billion) to US$9.7 billion (approximately HK$75 billion), a compound annual growth of 24.5%. The proportion of Chinese imports into the U.S. of furniture and household goods ballooned from 29% in 2000 to almost 47% in 2004.

Exhibit 3: U.S. imports of furniture

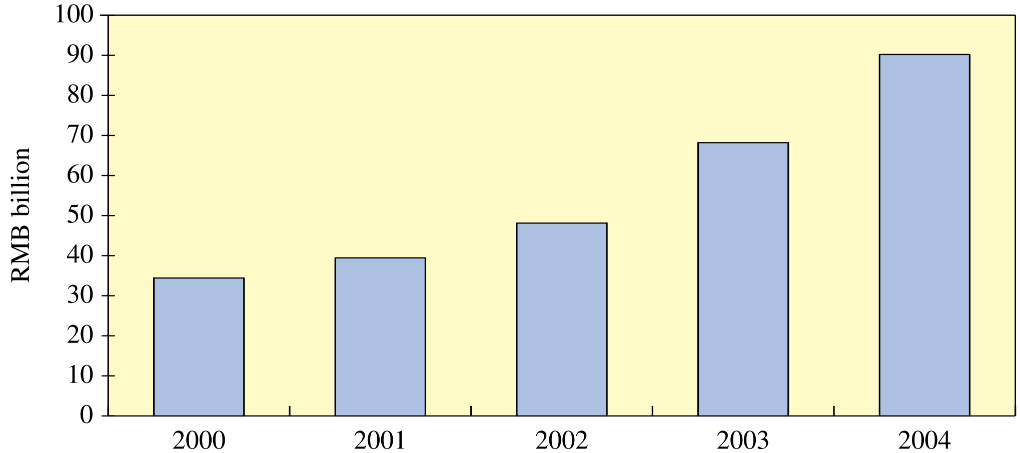


Source: U.S. Census Bureau (based on the information disclosed on the website of U.S. Census Bureau and created on 22 August 2002, 13 June 2003, 14 June 2004, 10 February 2005 and 10 June 2005)

The competitive advantage of Chinese producers is threatening the survival of the U.S. furniture manufacturing industry. Despite concerns of massive job losses in the U.S., the displacement trend appears likely to continue. According to Wall Street Journal dated 10 November 2004, the U.S. Commerce Department has ruled in November 2004 to cut the proposed tariff rate for 115 Chinese manufacturers to 8.6% from 12.9%. The reduction of tariff rates means that big furniture stores in the U.S. will continue to order heavily from Chinese factories which will in turn accelerate the relocation of furniture manufacturing base from the U.S. to China.

The rapid expansion of the China furniture industry is presented in Exhibit 4. In terms of sales revenue, the China furniture industry recorded a compound annual growth of over 27% from RMB34.4 billion (approximately HK$32.4 billion) in 2000 to RMB90.2 billion (approximately HK$85 billion) in 2004. The strength of future growth will be underpinned by the encouraging long-term global economic outlook, the growing disposable income, the trend of rising home furnishings expenditure, and the elimination of trade barriers which will promote China furniture exports.

Exhibit 4: China Furniture Industry Sales Revenue



Source: Beijing Kang Kai Information Consultancy Co. Ltd, 26 March 2005

DESCRIPTION OF BUSINESS

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

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

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

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

Note:

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

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

PRINCIPAL STRENGTHS OF THE GROUP

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

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

HISTORY AND DEVELOPMENT

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

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

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

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

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

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

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

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

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

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

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

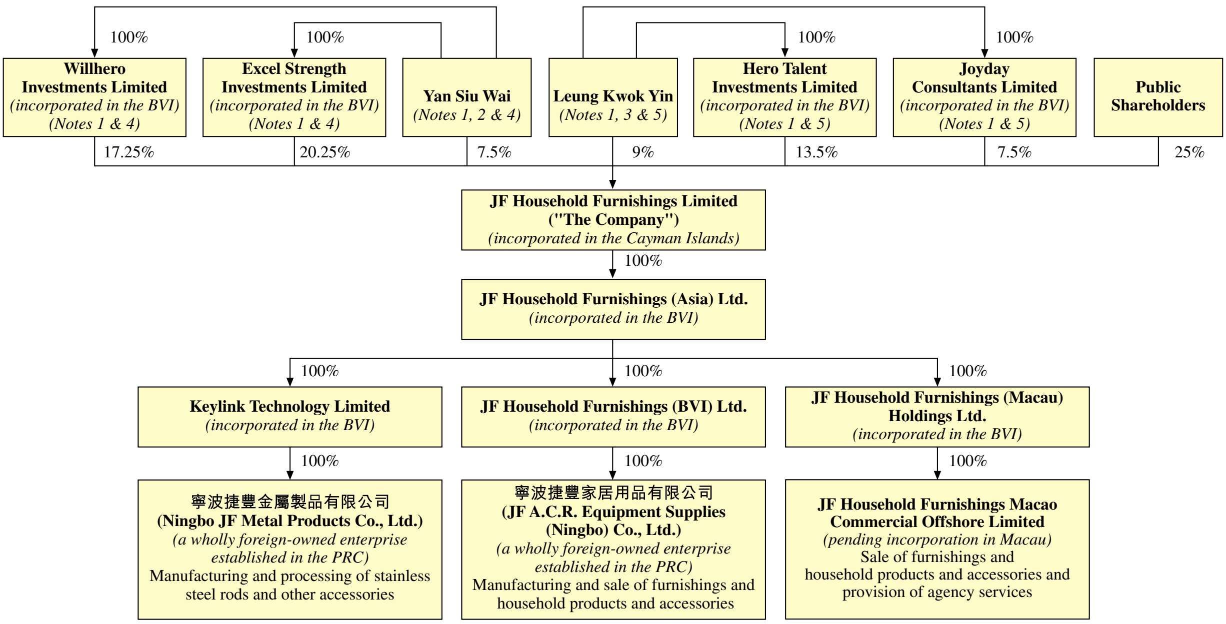
On 3 December 2004, Better Asia and JF BVI entered into a transfer agreement pursuant to which JF BVI acquired all the equity interests of JF Ningbo from Better Asia, in consideration of the issue and allotment of 60 shares and 40 shares in JF BVI, credited as fully paid at par to Mr. Yan Siu Wai and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

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

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

GROUP STRUCTURE

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



Notes:

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

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

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

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

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

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

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

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

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

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

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

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

REVENUE MODEL

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

PRODUCTS

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

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

Pedal bin

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

Cabinet handles

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

Kitchen products

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

Bathroom products

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

Other products and accessories

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

PRODUCT DESIGN AND DEVELOPMENT

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

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

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

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

2. surface cleaning facilities for stainless steel products.

The two systems have been implemented.

PRODUCTION FACILITIES

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

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

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

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

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

Possible relocation of existing production facilities

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

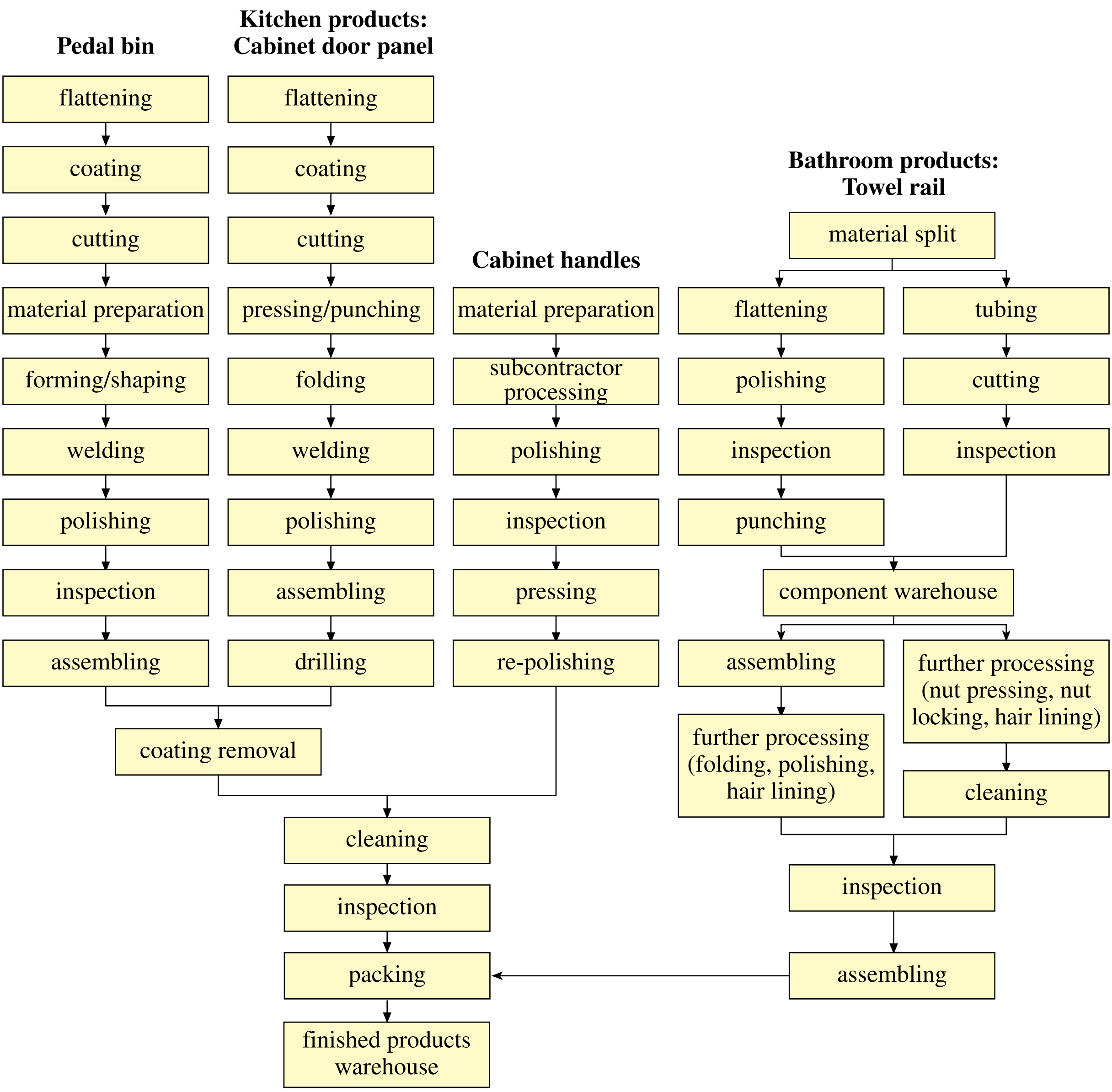
On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) for the acquisition of a piece of land of 44,105 sq.m. ("New Production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

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

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

PRODUCTION PROCESS

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



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

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

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

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

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

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

RAW MATERIALS AND PURCHASES

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

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

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

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

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

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

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

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

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

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

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

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

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

INVENTORY CONTROL

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

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

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

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

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

— closely reviewing the recent sales trend of different products.

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

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

QUALITY CONTROL

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

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

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

CUSTOMERS

IKEA

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

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

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

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

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

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

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

1. *Establishing the Group's own brand*

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

2. *Metal processing work*

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

Other customers

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

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

PAYMENT TERMS AND CREDIT CONTROL

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

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

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

COMPETITION

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

DISPOSAL OF HEAT EXCHANGER BUSINESS

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

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

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

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

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

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

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

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

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

2. Press aluminum foil by numerical control press machine;

3. De-coil and cut the copper tube;

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

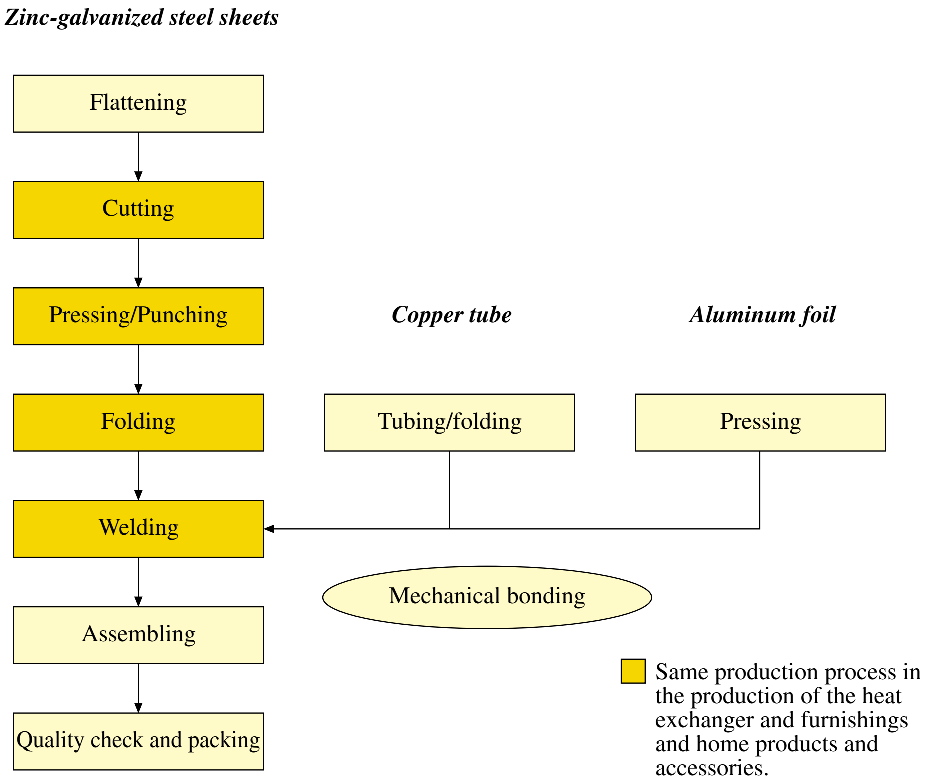
5. Bond the aluminum foil and copper tube using the expanser machine;

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

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

8. Conduct quality check.

The production process flow of heat exchanger



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

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

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

COMPLIANCE AND APPROVALS

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

INSURANCE

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

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

ENVIRONMENTAL PROTECTION

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

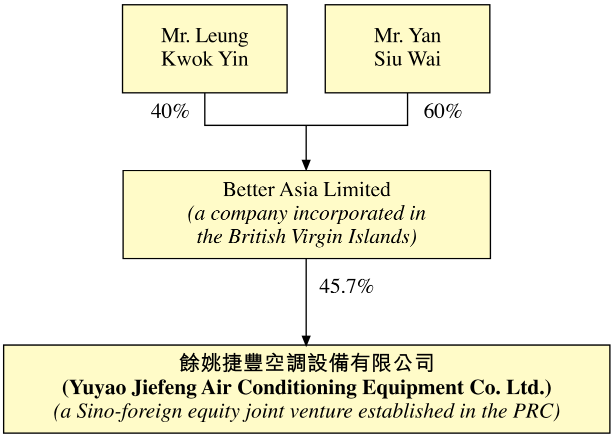
RELATED PARTIES' TRANSACTIONS AND CONNECTED TRANSACTIONS

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

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

Related parties and connected persons

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



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

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

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

Related parties

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

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

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

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

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

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

Discontinued related parties' transactions

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

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

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

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

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

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

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

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

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

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

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

D. *Purchases of stainless steel from ACR*

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

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

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

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

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

F. *Disposal of the Heat Exchangers Business*

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

Continuing related parties' transactions

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

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

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

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

B. *Purchases of printing materials from Kongshun*

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

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

Continuing connected transactions

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

A. *Processing Work*

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

B. *Licence of office premises*

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

Exempted continuing connected transactions

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

A. *Processing Work*

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

B. *Licensing of office premises*

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

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

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

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

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

The followings are details of the Group's business pursuits from 1 January 2003 to the Latest Practicable Date:

FOR THE YEAR ENDED 31 DECEMBER 2003

Turnover and profit

For the year ended 31 December 2003, the Group recorded a turnover and profit of approximately HK$84.1 million and HK$13.4 million respectively. Please refer to the section headed "Financial information" in this prospectus for further details.

Corporate development

- Obtained all necessary approvals and completed all requisite registrations and filings with the relevant PRC government authorities, in particular, the People's Government of Ningbo, the Ningbo Administration of Industry and Commerce and the Administrative Committee of Zhejiang Province Yuyao Economic Development Zone, in respect of the establishment of JF Metal.

Marketing strategy

- Focused on strengthening the business relationship with IKEA by participating in the development of new furnishings and home products and accessories.

Business development

- Commenced the manufacture of products for the brand names of Habitat and Bodilsen.

- Significant increase in the production of stainless steel furnishings.

Product development

- Launched new furnishings and home products and accessories including trolleys, mounting strips and wall shelves.

- Participated in the development of 16 new products for different product ranges of IKEA.

Production facilities

- Established a new punching division.

- Purchase of new plant and machinery including 13 punching machines, nine welding machines and seven other types of machines for production.

- Expanded the production plant from 2,182 sq.m. to 3,541 sq.m..

Funding arrangements

- Internal funds generated from the Company's cash flows.

- Outstanding loans granted by the following banks and party as at 31 December 2003:

  - Shanghai Pudong Development Bank of approximately HK$12.08 million.

  - China Merchant Bank of approximately HK$3.77 million.

  - 餘姚市工業(中小企業)投資發展有限公司 (Yuyao City Industrial Investment Development Company Limited) of approximately HK$3.77 million.

Deployment of human resources

As at 31 December 2003, the Group had 294 full-time employees responsible for the following duties respectively:

	Hong Kong	PRC	Total
Management	2	3	5
Sales and marketing	—	3	3
Administration and accounting	—	4	4
Operations	—	3	3
Product development	—	4	4
Production management	—	9	9
Quality control	—	5	5
Production Staff	—	261	261
Total	2	292	294

FOR THE YEAR ENDED 31 DECEMBER 2004

Turnover and profit

For the year ended 31 December 2004, the Group recorded a turnover and profit of approximately HK$152.5 million and HK$18.9 million respectively. Please refer to the section headed "Financial information" in this prospectus for further details.

Corporate development

- Obtained all necessary approvals and completed all requisite registrations and filings with the relevant PRC government authorities, in particular, the People's Government of Ningbo, the Ningbo Administration of Industry and Commerce and the Administrative Committee of Zhejiang Province Yuyao Economic Development Zone, in respect of (i) the change of name from 捷豐冷凍器材(寧波)有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.) to 寧波捷豐家居用品有限公司 (JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd.); (ii) the conversion of JF Metal into a wholly foreign-owned enterprise and expansion of business scope; and (iii) the transfers of equity interests in JF Ningbo and expansion of business scope.

Marketing strategy

- Continued to maintain long term business relationship with IKEA.
- Started seeking new potential customers to expand the customer base.

Business development

- Expanded the Group's human and capital resources to meet the substantial growth of the stainless steel business.
- Explored business opportunities in stainless steel business.

Product development

- Launched new products, including kitchen products such as wall shelves and accessories for ventilation fans, and steel rods and parts for home appliances.

Production facilities

- Completed the construction of the new production plant of 6,647 sq.m. to increase production capacity and obtained the related building ownership certificate.
- Purchased facilities to facilitate the sheet metal manufacturing process and established a sheet metal workshop to reduce the subcontracting works to third party subcontractors.
- Purchased new production machines including five punching machines, four welding machines, three cutting machines and six folding machines.

Funding arrangements

- Internal funds generated from the Company's cash flows.
- Outstanding loans granted by the following banks as at 31 December 2004:
  - Bank of China of approximately HK$8.87 million.
  - Business Development Bank of US$1.8 million (approximately HK$14.05 million).

Deployment of human resources

As at 31 December 2004, the Group had 305 staff members in Hong Kong and the PRC, a breakdown by their work functions is set out as follows:

	Hong Kong	**PRC**	**Total**
Management	2	5	7
Sales and marketing	—	4	4
Administration and accounting	—	6	6
Operations	—	5	5
Product development	—	6	6
Production management	—	10	10
Quality control	—	7	7
Production Staff	—	260	260
Total	2	303	305

FROM 1 JANUARY 2005 TO THE LATEST PRACTICABLE DATE

Marketing strategy

- Continued to maintain strong and long term business relationship with IKEA and to develop more varieties of furnishings and home products and accessories for IKEA.
- Actively explored new business opportunities with potential international customers on furnishings and home products and accessories.

Business development

- Set up a web-site to promote the Group's image in August 2005.
- Improved existing control procedures and policies.

Product development

- Developed new products including cabinet door panels, free standing toilet brush holders and paper holders.

- Continued the research and development of other steel furnishings and home products and accessories.

Production facilities

- Purchased dust purifying facilities to improve environmental control.

- Commenced the construction of the new production plant of 5,000 sq.m. at the Group's existing production facilities.

- Acquired new production machineries and facilities.

Funding arrangements

- Internal funds generated from the Company's cash flows.

- Outstanding loans granted by the following bank as at 30 June 2005:

    - Bank of China of approximately HK$15.57 million.

Deployment of human resources

As at the Latest Practicable Date, the Group had 634 staff members in Hong Kong and the PRC, a breakdown by their work functions is set out as follows:

	Hong Kong	**PRC**	**Total**
Management	3	6	9
Sales and marketing	—	6	6
Administration and accounting	—	11	11
Operations	—	6	6
Research and development, product design	—	10	10
Production management	—	20	20
Quality control	—	13	13
Production Staff	—	559	559
Total	3	631	634

DIRECTORS

Executive Directors

Mr. Yan Siu Wai (甄兆威), aged 50, is one of the co-founders and Chairman of the Group. Mr. Yan is responsible for the strategic planning, corporate development and supervision of overall management of the Group. Mr. Yan graduated from Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1976 with a higher diploma in production engineering. In 1998, he also obtained a master degree in Science (Engineering Business Management) from the University of Warwick, the United Kingdom. Mr. Yan is a member of the American Institute of Industrial Engineers and American Society of Heating Refrigerating and Air-conditioning Engineers, Inc.. Mr. Yan has approximately 25 years of experience in industrial management and manufacturing. Mr. Yan is also a director of Multistack International Limited, a company listed on the Australian Stock Exchange which is principally engaged in the manufacturing and marketing of industrial air conditioning equipment. He is also a director of 浙江帥康電氣股份有限公司 (Zhejiang Shuaikang Electric Stock Co. Ltd), a company established in the PRC which is principally engaged in the manufacture of home electrical appliance and is the second largest customer of the Group in 2004, which purchases represented 4.76% of the Group's turnover in 2004. Mr. Yan has been involved in businesses in China for approximately 25 years, from the manufacturing and marketing of air conditioning products since 1998, to the current business of the Group in the furnishings and home products industry.

Mr. Leung Kwok Yin (梁國賢), aged 53, is one of the co-founders of the Group. Mr. Leung is responsible for product development, materials sourcing and marketing of the Group. Mr. Leung graduated from Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1975 with a technician diploma in electrical engineering. Mr. Leung has been partnering with Mr. Yan for investments in the PRC for approximately 25 years and has built substantial manufacturing and distribution experiences in the PRC. Mr. Leung is also a director of Multistack International Limited, a company listed on the Australian Stock Exchange.

Mr. Bao Jisheng (鮑繼聲), aged 67, has been the general manager of JF Ningbo since January 2003. He joined the Group in January 1999. Mr. Bao was previously the factory manager of 餘姚通用機器廠 (Yuyao General Machinery Factory). Mr. Bao is responsible for the overall operation of JF Ningbo. He has over 40 years of experience in manufacturing, industrial engineering and business management. Mr. Bao is a qualified engineer and a director of Yuyao Jiefeng Air-Con.

Independent non-executive Directors

Mr. Kwan Kai Cheong (關啓昌), aged 55, graduated from the University of Singapore in 1973 with a degree in Accountancy. Mr. Kwan is qualified as a Chartered Accountant in Australia in 1979 and is a member of the Hong Kong Institute of Certified Public Accountants since 1982. He completed the Stanford Executive Program in 1992. He was previously the president and chief operating officer for the Asia Pacific Region of Merrill Lynch & Co. Mr. Kwan was appointed as an independent non-executive Director in March 2005. Mr. Kwan is also an independent non-executive director of Hutchison Telecommunications International Limited, Hutchison Harbour Ring Limited and Soundwill Holdings Limited, companies listed on the Main Board of the Stock Exchange and an executive director of China Medical Science Limited and an independent non-executive director of T S Telecom Technologies Limited, companies listed on the GEM. Mr. Kwan is also a director of Yaohan International Holdings Limited, a company previously listed on the Main Board which is pending liquidation ("Liquidation"). Mr. Kwan had confirmed that there was no wrongful act done by him leading to the Liquidation and that the Liquidation would not adversely affect his position in discharging duties of acting as an independent non-executive Director.

Mr. Garry Alides Willinge, aged 55, is a fellow of the Australian Institute of Company Directors and an Adjunct Professor with the Curtin Business School. He graduated from the University of Melbourne, Australia in 1970 with a Bachelor of Science. In 1996, he also obtained a Graduate Diploma in Applied Finance and Investment from the Securities Institute Education in Australia. Mr. Willinge is also a director of China Medical Science Limited, a company listed on the GEM. Prior to joining the Group, he has worked in a number of management roles in a multinational information technology company. Mr. Willinge was appointed as an independent non-executive director in March 2005.

Mr. Yu Hon Wing Allan (俞漢榮), aged 49, graduated from the Hong Kong Polytechnic University (formerly known as the Hong Kong Polytechnic) in 1978 with a higher diploma in Accountancy. Mr. Yu is a Certified Public Accountant (Practising) with the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants). He is also a fellow of the Chartered Association of Certified Accountants since 1986. Mr. Yu was appointed as an independent non-executive director in March 2005.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference in accordance with and pursuant to Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review the Company's annual report and accounts, half-year reports and quarterly reports and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing internal control procedures of the Group.

The audit committee comprises the three independent non-executive Directors, namely, Mr. Kwan Kai Cheong *(chairman)*, Mr. Garry Alides Willinge and Mr. Yu Hon Wing, Allan.

SENIOR MANAGEMENT

Mr. Bao Xiangqian (鮑向前), aged 39, joined the Group in January 1999 and was promoted from the sales director of the Group to the position of deputy general manager in November 2004 and is in charge of the Group's marketing activities and correspondences with overseas customers. Mr. Bao graduated from East China University of Technical Engineering (華東理工大學) in 1988 with a bachelor degree major in Scientific English. He has been engaged in international trading for 16 years. Mr. Bao obtained a Master of Business Administration from the University of Canberra, Australia in July 2005. Mr. Bao is the son of Mr. Bao Jisheng.

Mr. Wang Shengkang (王勝康), aged 64, joined the Group in June 2002 and was promoted to the position of deputy general manager in November 2004. Mr. Wang is responsible for the personnel and daily administrative operations of the Group. He has been engaged in corporate administration for 20 years.

Mr. Wu Dingfeng (吳定鋒), aged 42, has been appointed as the technical controller of the Group since January 2003. Mr. Wu is responsible for daily technical and mechanical operations of the Group. Mr. Wu graduated from the faculty of mechanical engineering in 中國浙江工學院 (Zhejiang Engineering College, the PRC) in 1983 with a bachelor degree in engineering. Mr. Wu has been in mechanical engineering industry for over 20 years. Prior to joining the Group in January 2003, Mr. Wu has worked for 餘姚通用機器廠 (Yuyao General Machinery Factory) and 餘姚捷華壓縮機有限公司 (Yuyao Jiehua Compressor Ltd.) as technical manager and chief engineer.

Mr. Cheung Wai Tak (張偉德), aged 53, joined the Group as the financial controller in May 2005 and has been working in the finance and accounting field for over 10 years. Mr. Cheung is a Certified Public Accountant in the United States and is a member of the Hong Kong Institute of Certified Public Accountants. He graduated with an MBA degree from the University of California at Berkeley, the United States in 1981.

QUALIFIED ACCOUNTANT

Mr. Cheung Wai Tak (CPA(US), CPA)

COMPANY SECRETARY

Mr. Cheung Wai Tak (CPA(US), CPA)

COMPLIANCE OFFICER

Mr. Yan Siu Wai

STAFF

As at the Latest Practicable Date, the Group had 634 staff members in Hong Kong and the PRC, a breakdown by their work functions is set out as follows:

	Hong Kong	PRC	Total
Management	3	6	9
Sales and marketing	—	6	6
Administration and accounting	—	11	11
Operations	—	6	6
Research and development, product design	—	10	10
Production management	—	20	20
Quality control	—	13	13
Production Staff	—	559	559
Total	3	631	634

Relationship with staff

Since the inception of business, the Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulties in the recruitment and retention of experienced staff. The Directors believe that the Group has a good working relationship with its employees.

Pension schemes

In the PRC, the Group and its employees participate in the social insurance scheme, pursuant to which the Group and its employees pay contributions to the scheme. The Group and each of its employees are currently required to pay a monthly contribution equivalent to 20% and 8% respectively of the employee's average monthly salary in the preceding year.

For the staff in Hong Kong, the Group participates in a mandatory provident fund scheme for its employees in accordance with applicable laws and regulations.

SHARE OPTION SCHEMES

The Company has adopted the Pre-IPO Share Option Scheme which purpose is to recognise the contribution of certain persons to the growth of the Group and/or to the listing of Shares on GEM and to motivate the participants to contribute or to optimise their contribution to the long-term growth and profitability of the Group. As at the Latest Practicable Date, the Company has granted options under the Pre-IPO Share Option Scheme to three executive Directors, four members of the senior management and eight other employees of the Group to subscribe for a total of approximately 20,160,000 Shares, of which 13,440,000 Shares will be issued at the exercise price of HK$0.80 (being the lowest point of the indicative placing price range of HK$0.80 to HK$0.96 per Share) each and 6,720,000 Shares will be issued at the exercise price of HK$0.56 each, representing, in aggregate, 12% of the issued share capital 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). All of these options granted under the Pre-IPO Share Option Scheme will only be exercised after the expiry of 6 months from the Listing Date but in any event not later than 5 years from the Listing Date. The full exercise of all these options would result in the issue of 20,160,000 Shares. The number of the issued Shares of the Company will be increased from 168,000,000 to 188,160,000 upon the full exercise of the options granted under the Pre-IPO Share Option Scheme. This will result in a dilution in the shareholding of the shareholders of the Company and on the basis of 168,000,000 Shares in issue before the enlargement by the issue of Shares pursuant to the full exercise of the Pre-IPO Share Options, the net tangible asset value per Share will be diluted from approximately HK$0.222 to approximately HK$0.198 as at 30 June 2005. Details of the options granted under the Pre-IPO Share Option Scheme are set out in the paragraph headed "Share Option Schemes — Pre-IPO Share Option Scheme" under the section headed "Other information" in Appendix V to this prospectus. No further options will be granted under the Pre-IPO Share Option Scheme after the listing of the Shares on GEM.

The Company has conditionally adopted the Post-IPO Share Option Scheme under which employees of the Group (including any Directors) may be granted options to subscribe for Shares. The principal terms of the Post-IPO Share Option Scheme are summarised in the paragraph headed "Share Option Schemes — Post-IPO Share Option Scheme" under the section headed "Other information" in Appendix V to this prospectus.

As at the Latest Practicable Date, no option has been granted or agreed to be granted by the Company under the Post-IPO Share Option Scheme.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue (but taking no account of any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and any option granted under the Pre-IPO Share Option Scheme or to be granted under the Post-IPO Share Option Scheme), the following persons will have an interest or short position in the Shares, 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 be directly or indirectly interested in 10% or more of the voting power at general meetings of the Company:

Name	**Name of Group member**	**Capacity**	**Number or attributable number of Shares held immediately after the Placing and the Capitalisation Issue** *(Note)*	**Percentage shareholding in the Company held immediately after the Placing and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised at all)**
Mr. Yan Siu Wai	The Company	Beneficial owner	75,600,000 Shares (L)	45%
Mr. Leung Kwok Yin	The Company	Beneficial owner	50,400,000 Shares (L)	30%

Note: The letter "L" denotes the person's long position in the Shares.

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalisation Issue (but taking no account of any Shares which may be allotted and issued upon the exercise of the Offer Size Adjustment Option and any option granted under the Pre-IPO Share Option Scheme or to be granted under the Post-IPO Share Option Scheme), the following persons will be entitled to exercise or control the exercise of 5% or more of the voting power at the general meetings of the Company and are able, as a practical matter, to direct or influence the management of the Company immediately prior to the date of this prospectus and/or immediately prior to the Listing Date and are therefore regarded as Initial Management Shareholders under the GEM Listing Rules:

Name	Number or attributable number of Shares held immediately after the Placing and the Capitalisation Issue	Percentage shareholding in the Company held immediately after the Placing and the Capitalisation Issue (assuming the Offer Size Adjustment Option is not exercised at all)
Excel Strength *(Note 1)*	34,020,000	20.25%
Willhero *(Note 1)*	28,980,000	17.25%
Mr. Yan Siu Wai *(Note 2)*	75,600,000	45.00%
Hero Talent *(Note 3)*	22,680,000	13.50%
Joyday *(Note 3)*	12,600,000	7.50%
Mr. Leung Kwok Yin *(Note 4)*	50,400,000	30.00%

Notes:

1. The entire issued share capital of each of Excel Strength and Willhero is wholly owned by Mr. Yan Siu Wai.

2. The number of Shares represents the total number of Shares to be held by Mr. Yan Siu Wai directly and through Excel Strength and Willhero indirectly after the Placing and the Capitalisation Issue.

3. The entire issued share capital of each of Hero Talent and Joyday is wholly owned by Mr. Leung Kwok Yin.

4. The number of Shares represents the total number of Shares to be held by Mr. Leung Kwok Yin directly and through Hero Talent and Joyday indirectly after the Placing and the Capitalisation Issue.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, save for the persons disclosed under the paragraphs headed "Substantial Shareholders" and "Initial Management Shareholders" in this section above, there are no other persons who will immediately following completion of the Placing and the Capitalisation Issue be directly or indirectly interested in 5% or more of the voting power at the general meetings of the Company and are therefore regarded as significant shareholder of the Company under the GEM Listing Rules.

UNDERTAKINGS BY INITIAL MANAGEMENT SHAREHOLDERS

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor, the Underwriters and the Stock Exchange that, inter alia, during the Lock-up Period:

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

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

ESCROW ARRANGEMENTS

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor, the Underwriters and the Stock Exchange that he or it (as the case may be) shall place in escrow with an escrow agent acceptable to the Stock Exchange, his/its (as the case may be) Relevant Securities for a period commenced on the Latest Practicable Date and ending on the date which is 12 months from the Listing Date on terms acceptable to the Stock Exchange.

The authorised and issued share capital of the Company are as follows:

Authorised:		*HK$*
500,000,000	Shares	5,000,000

Issued and to be issued, fully paid or credited as fully paid:

2,000,000	Shares in issue as at the date of this prospectus	20,000
42,000,000	Shares to be issued pursuant to the Placing (before any exercise of the Offer Size Adjustment Option) *(Note)*	420,000
124,000,000	Shares to be issued pursuant to the Capitalisation Issue	1,240,000
168,000,000	Shares (before any exercise of the Offer Size Adjustment Option) *(Note)*	1,680,000

Note:

If the Offer Size Adjustment Option is exercised in full, then 6,300,000 additional Shares will be issued resulting in a total issued share capital of 174,300,000 Shares with an aggregate nominal value of HK$1,743,000.

Minimum public float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of its issued share capital in the hands of the public which, in the case of the Company, must not be less than 25%.

Assumptions

This table assumes that the Placing and the Capitalisation Issue become unconditional. It takes no account of any Shares which may be allotted and issued upon the exercise of options which have been or may be granted under the Share Option Schemes, or which may be allotted and issued under the general mandate to allot, issue and deal with Shares (see below), or which may be purchased by the Company pursuant to the general mandate to repurchase securities (see below).

Ranking

The Placing Shares will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this prospectus (except for the entitlement under the Capitalisation Issue) and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus.

Share Option Schemes

The Company has adopted the Pre-IPO Share Option Scheme and conditionally adopted the Post-IPO Share Option Scheme, a summary of the principal terms of the Share Option Schemes are set out in the paragraph headed "Share Option Schemes" in Appendix V to this prospectus.

The number of Shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Schemes and any other share option schemes of the Company must not exceed 30% of the issued share capital of the Company from time to time.

General mandate to allot and issue new Shares

The Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of the Company with a total nominal amount of not more than the sum of:

- 20% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue and the exercise (if any) of the Offer Size Adjustment Option; and

- the total amount of share capital of the Company repurchased by the Company (if any) pursuant to the general mandate to repurchase Shares granted to the Directors referred to below.

The Directors may, in addition to the Shares which they are authorised to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any options granted under the Share Option Schemes.

This mandate will 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 law 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.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all shareholders of the Company passed on 8 September 2005" under the paragraph headed "Further information about the Company" in Appendix V to this prospectus.

General mandate to repurchase Shares

The Directors have been granted a general mandate to exercise all the powers of the Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue and the exercise (if any) of the Offer Size Adjustment Option.

This general mandate only relates to repurchases made on GEM, or any other stock exchange on which the Shares are listed (and which is recognised by the Hong Kong Securities and Futures Commission and the Stock Exchange for this purpose), and which are made in accordance with the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" under the paragraph headed "Further information about the Company" in Appendix V to this prospectus.

This mandate will 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 law 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.

For further details of this general mandate, please refer to the paragraph headed "Written resolutions of all shareholders of the Company passed on 8 September 2005" under the paragraph headed "Further information about the Company" in Appendix V to this prospectus.

INDEBTEDNESS

Borrowings

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

Contingent liability

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

Security

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

Disclaimer

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

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

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

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

Capital commitments

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

Financial resources

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

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

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

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

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

Foreign exchange

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

Capital expenditures

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

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

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

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

Cash flows

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

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

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

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

Operating activities

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

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

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

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

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

Deposit and other receivables decreased by approximately HK$0.4 million for the six months ended 30 June 2005 which mainly consisted of prepaid expenses of approximately HK$3.7 million for the listing of the Shares on GEM, approximately HK$3.3 million paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) to express the Group's intention to acquire the land use rights of a parcel of land, approximately HK$2.9 million paid to suppliers for acquisition of raw materials was made in anticipation of the increased production volume in the third quarter of 2005 and the balances represented the deposits paid for acquiring property, plant and equipment and tax refund for export. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with 餘姚市國土資源局姚北工業新區分局 (the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City) for the acquisition of the land use rights of a parcel of land located at Yaobei Industrial New Zone of the Yuyao City for a term of 50 years commencing from the date of issue of the State-owned Land Use Rights Certificate at a consideration of RMB15,745,485 (approximately HK$14,854,231) of which RMB3,500,000 (approximately HK$3,301,887) had been previously paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) transferred as part of the consideration paid upon the signing of the Transfer Agreement.

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

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

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

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

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

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

Investing activities

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing activities

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

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

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

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

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

Financial and liquidity position

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

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

Inventories

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

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

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

Trade receivables

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

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

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

Deposits and other receivables

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

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

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

Deposit and other receivables decreased by approximately HK$0.4 million as at 30 June 2005 when compared to 31 December 2004. Deposits and other receivable at 30 June 2005 mainly consisted of prepaid expenses of approximately HK$3.7 million for the listing of the Shares on GEM, approximately HK$3.3 million paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) to express the Group's intention to acquire the land use rights of a parcel of land, approximately HK$2.9 million paid to suppliers for acquisition of raw materials was made in anticipation of the increased production volume in the third quarter of 2005 and the balances represented the deposits paid for acquiring property, plant and equipment and tax refund for export. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement ("Transfer Agreement") with 餘姚市國土資源局姚北工業新區分局 (the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City) for the acquisition of the land use rights of a parcel of land located at Yaobei Industrial New Zone of the Yuyao City for a term of 50 years commencing from the date of issue of the State-owned Land Use Rights Certificate at a consideration of RMB15,745,485 (approximately HK$14,854,231) of which RMB3,500,000 (approximately HK$3,301,887) had been previously paid to 餘姚市姚北工業新區管委會 (the Management Committee of Yaobei Industrial New Zone) transferred as part of the consideration paid upon the signing of the Transfer Agreement.

Due from directors and due from related companies

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

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

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

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

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

Pledged bank deposit

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

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

Trade payables

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

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

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

Bank borrowings

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

Recent accounting pronouncement

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

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

Depreciation of property, plant and equipment

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

Provision for obsolete and slow moving inventories

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

Allowance for doubtful receivables

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

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

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

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

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

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

TRADING RECORD

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

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

Notes:

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

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

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

Introduction

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

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

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

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

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

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

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

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

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

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

Turnover

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

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

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

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

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

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

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

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

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

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

4) IKEA sourced more product from the PRC.

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

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

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

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

Gross profit

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

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

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

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

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

Gross profit for the furnishings and home products and accessories

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

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

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

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

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

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

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

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

Gross profit for heat exchangers

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

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

Cost of sales for the furnishings and home products and accessories

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

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

Material costs for the furnishings and home products and accessories

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

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

Direct labour for the furnishings and home products and accessories

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

Overheads for the furnishings and home products and accessories

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

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

Selling and distribution costs

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

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

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

Administrative expenses

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

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

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

Finance costs

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

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

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

Income tax expenses

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

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

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

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

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

Profit attributable to the equity holders of the Company

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

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

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

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

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

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

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

Turnover

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

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

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

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

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

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

Gross profit

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

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

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

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

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

Gross profit for the furnishings and home products and accessories

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

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

Gross profit for heat exchangers

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

Cost of sales for the furnishings and home products and accessories

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

Material costs for the furnishings and home products and accessories

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

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

Direct labour for the furnishings and home products and accessories

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

Overheads for the furnishings and home products and accessories

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

Selling and distribution costs

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

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

Administrative expenses

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

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

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

Finance costs

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

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

Income Tax Expenses

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

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

Profit attributable to the equity holders of the Company

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

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

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

Analysis of the Group's financial ratios

Selected financial ratios

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

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

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

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

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

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

Inventory turnover days

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

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

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

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

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

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

Debtors' turnover days

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

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

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

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

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

Creditors' turnover days

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

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

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

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

Gearing ratio

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

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

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

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

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

TAXATION

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

PROPERTY INTERESTS

Property interests held and occupied by the Group in the PRC

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

Property interests to be acquired by the Group in the PRC

The Group has entered into a State-owned land use rights transfer agreement with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) on 19 August 2005 for the acquisition of a piece of land of 44,105 sq.m. located at Yaobei Industrial New Zone, Yuyao, Zhejiang Province, the PRC. Details of the land to be acquired are set out in Appendix III to this prospectus.

Properties rented and occupied by the Group in Hong Kong

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

Property valuation

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

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

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

DISTRIBUTABLE RESERVES

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

DIVIDEND POLICY

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

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

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

WORKING CAPITAL

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

RULES 17.15 TO 17.21 OF THE GEM LISTING RULES

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

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

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

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

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

PROFORMA ADJUSTED NET TANGIBLE ASSETS

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

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

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

Notes:

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

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

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

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

NO MATERIAL ADVERSE CHANGE

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

FUTURE PLANS AND BUSINESS OBJECTIVES

The mission of the Group is to become one of the largest furnishings and home products and accessories manufacturers in the PRC with world-class standards in product design, quality control and effective cost control.

To accomplish its mission, the Group plans to adopt and implement the following strategies:

Expand production plant and facilities to increase production capacity

One of the key strengths of the Group is its flexibility in manufacturing a variety of furnishings and home products and accessories, which is supported by the continuous introduction of new production lines and facilities. During the Track Record Period, the Group has acquired new production facilities and constructed new production plants at the Group's existing production facilities. In order to cope with the increasing market demand, the Group plans to expand its existing production lines and facilities to increase production capacity. On 19 August 2005, the Group has entered into a State-owned land use rights transfer agreement with the Sub-Bureau of Yaobei Industrial New Zone of the Land and Resources Bureau of the Yuyao City (餘姚市國土資源局姚北工業新區分局) for the acquisition of a piece of land of 44,105 sq.m. for its expansion plan and construct major production buildings in the coming two years. The construction of the production plants will be divided into two phases. The first phase will commence in early 2006 which consists of a construction of a new production plant with total gross floor area of approximately 15,000 sq.m.. The first phase is expected to be completed by the end of 2006. The second phase is to construct another production plant with total gross floor area of approximately 15,000 sq.m. which will commence in 2007. The new production plant will be equipped with new production machineries and facilities including pressing machines, surface treatment facilities, and fully automatic sheet metal cutting machines.

At present, the Group outsources part of its production process to third party subcontractors. With the acquisition of new production machineries, the Group plans to reduce outsourcing of the production process to a minimum and achieve a better control of the quality, time and cost of the production.

Product diversification

With in-depth experience and technical expertise of the Group in the production of metal products, in addition to stainless steel, the Group plans to diversify its range of furnishings and home products and accessories by using other types of raw materials. The Group will establish a new research and development team to specialise in production techniques using different types of steel. In addition, the Group will also consider expanding its use of other raw materials such as wood in its furnishings and home products and accessories.

Explore new business opportunities and broaden the Group's customer base

The Group plans to broaden its customer base in the home furnishings market. In this respect, the Group plans to expand its marketing department and to increase sales staff and representative offices to explore new business opportunities in both the PRC and overseas, thereby increasing revenue to the Group. Further, as a medium to long term business strategy, the Group also plans to establish its own brandname and sell its own line of furnishings and home products and accessories to different retailers in the PRC and in global market through such marketing effort and sales and distribution network. The Directors are of the view that while IKEA continues to be one of the most important customers of the Group, the Group will at the same time continue to broaden its customer base by targeting potential customers such as large home furnishings retailers or distributors.

Improve the overall management systems

In order to attain the mission of the Group to achieve world-class standard in the industry, the Group plans to allocate more resources on the improvement of its management system. The Group will implement the ISO 9000 standard and enterprise resources planning system to further improve its operational efficiencies. The Group plans to recruit professional consultants to assist it to attain the ISO 9000 standard, enterprise resources planning system implementation and the re-engineering of the overall management system.

IMPLEMENTATION PLANS

	For the period from the Latest Practicable Date to 31 December 2005	**For the six months ending 30 June 2006**	**For the six months ending 31 December 2006**	**For the six months ending 30 June 2007**	**For the six months ending 31 December 2007**
Expand production plant and facilities	• Complete construction of the new production plant of 5,000 sq.m. at the Group's existing production facilities • Complete the purchase of land for the Group's expansion with total gross floor area of approximately 40,000 sq.m.	• Construct the 1st phase of the new production plant with total gross floor area of approximately 15,000 sq.m. on the new piece of land.	• Purchase new facilities for the first phase construction of the production plant including power supplies, fire prevention facilities, and office renovation. • Set up automatic production facilities	• Construct the 2nd phase of the new production plant with total gross floor area of approximately 15,000 sq.m. on the new piece of land.	• Purchase new facilities for the 2nd phase production plant which include power supplies, fire prevention facilities, and office renovation. • Set up automatic production facilities
Estimated amount to be invested from the net proceeds of the Placing	HK$6.5 million	HK$4.7 million	HK$2.8 million	HK$4.9 million	HK$2.0 million

	For the period from the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007
Improve technology on stainless steel production facilities and develop products using other metals	• Establish a new research and development team to cater for the development of furnishings and home products and accessories using other types of steel • Improve existing research and development facilities	• Purchase new production machineries and facilities for furnishings and home products and accessories using both stainless steel and other types of steel	• Complete the set up for production using other types of steel	• Continue to conduct research and development and introduction of new furnishings and home products and accessories using other types of steel	• Improve production workflow and working environment in order to increase production volume of furnishings and home products and accessories using both stainless steel and other types of steel
Estimated amount to be invested from the net proceeds of the Placing	HK$0.8 million	HK$1.3 million	HK$1.1 million	HK$0.3 million	HK$0.2 million

	For the period from the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007
Explore new business opportunities and strengthen the sales and marketing team	• Expand marketing department to promote the Group's furnishings and home products and accessories to new customers	• Expand sales department to handle the expanding PRC market • Participate in home furnishings trade fairs	• Promote the brand name of the Group by advertising in home furnishings magazines	• Set up representative offices overseas to explore new business opportunities.	• Further strengthen the sales department
Estimated amount to be invested from the net proceeds of the Placing	HK$0.2 million	HK$0.2 million	HK$0.2 million	HK$0.2 million	HK$0.1 million

	For the period from the Latest Practicable Date to 31 December 2005	For the six months ending 30 June 2006	For the six months ending 31 December 2006	For the six months ending 30 June 2007	For the six months ending 31 December 2007
Improve production management and control systems	• Improve existing control procedures and policies	• Strengthen the production management system and implement the ISO9000 Standard • Purchase new computer hardware and software to facilitate better internal control	• Strengthen production management system and implement the ISO9000 Standard • Purchase new computer hardware and software to facilitate better internal control	• Full implementation of enterprise resources planning system for better information sharing and improve operational efficiency	• Full implementa-tion of enterprise resources planning system for better information sharing and improve operational efficiency
Estimated amount to be invested from the net proceeds of the Placing	HK$0.2 million	HK$0.2 million	HK$0.2 million	HK$0.2 million	HK$0.1 million

BASES AND ASSUMPTIONS

The business objectives and strategies formulated by the Directors are based on the following general assumptions:

- the Group will not be adversely affected by any of the risk factors set out under the section headed "Risk factors" in this prospectus;
- there will be no material adverse changes in the existing laws and regulations and market policies and regulations which are applicable to the Group, or in the existing political, legal, economic, fiscal and market conditions in the PRC, Hong Kong or other places;
- there will be no material differences between the actual capital requirement for implementing the above plans and the amounts estimated by the Group; and
- there will be no events which will cause serious disruption to the business or operation of the Group, or will cause material losses, damages or destruction to the properties or facilities of the Group.

REASONS FOR THE PLACING AND USE OF PROCEEDS

Based on the Placing Price of HK$0.88 per Share (being the midpoint of the indicative Placing Price range of HK$0.80 to HK$0.96 per Share), the net proceeds from the Placing, after the deduction of expenses payable by the Group, are estimated to be approximately HK$26.4 million. The Directors believe that the listing of the Shares on GEM will enhance the Group's profile and the net proceed of the Placing will strengthen the Group's financial position to pursue its business plans as set out in the paragraph headed "Future plans and business objectives" in this section. The Directors intends to apply the net proceeds as follows:

- approximately HK$20.9 million will be used for expansion of production plant and facilities;
- approximately HK$3.7 million will be used for technological improvements on stainless steel production facilities and development of products using other metals;
- approximately HK$0.9 million will be used to explore new business opportunities and strengthening the Group's sales and marketing team; and
- approximately HK$0.9 million will be used to upgrade production management system and purchase of new computer hardware and software to implement enterprise resources planning system.

In the event that the Placing Price is fixed at HK$0.96 per Share, being the highest point of the indicative Placing Price range, the net proceeds will be increased by approximately HK$3.2 million, based on the assumption that the Offer Size Adjustment Option is not exercised. The Directors intend to apply approximately HK$3.2 million as additional general working capital of the Group. In the event that the Placing Price is fixed at HK$0.80 per Share, being the lowest point of the indicative Placing Price range, the net proceeds will be reduced by approximately HK$3.2 million, based on the assumption that the Offer Size Adjustment Option is not exercised. In such circumstances, the Directors intend to reduce the application of the proceeds for the purchase of a piece of land and construction of a new production plant by approximately HK$3.2 million. If the Offer Size Adjustment Option is exercised in full, based on the Placing Price of HK$0.88 per Share (being the midpoint of the indicative Placing Price range of HK$0.80 to HK$0.96 per Share), the additional net proceeds from the Placing, after deduction of expenses payable by the Group, are estimated to be approximately HK$5.3 million and the Directors intend to apply the whole amount as general working capital.

To the extent of the net proceeds from Placing are not immediately applied for the above purposes, it is the present intention of the Directors that such net proceeds will be placed in short term deposit accounts with financial institutions in Hong Kong and/or the PRC.

UNDERWRITERS

Luen Fat Securities Company Limited
Grand Vinco Capital Limited
Sanfull Securities Limited
Sino Grade Securities Limited
Sun Hung Kai International Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares under the Placing at the Placing Price to professional, institutional and private investors on and subject to the terms and conditions of this prospectus.

In addition, the Company has granted the Offer Size Adjustment Option to the Underwriters exercisable by the Lead Manager (on behalf of the Underwriters) at any time at or before 12:00 noon on 10 October 2005 (i.e. the business day immediately before the date of announcement of the level of indication of interest in the Placing) to require the Company to allot and issue up to an aggregate of additional 6,300,000 Share under the same terms of the Placing, representing 15% of the Shares initially available under the Placing, at the Placing Price.

Subject to, amongst other things, the GEM Listing Committee granting listing of, and permission to deal in, all the Shares to be issued as mentioned in this prospectus including the Shares to be issued pursuant to the Offer Size Adjustment Option on or before 4 November 2005, or such later date as the Company and the Lead Manager (on behalf of the Underwriters) may agree in writing, the Underwriters have severally agreed to subscribe for or procure placees to subscribe for, subject to the terms and conditions of the Placing, the Placing Shares.

Grounds for termination

The respective obligations of the Underwriters to subscribe for or procure placees to subscribe for the Placing Shares are subject to termination and the Underwriters are entitled to terminate their obligations under the Underwriting Agreement upon the occurrence of any of the following events by notice in writing to the Company given by the Lead Manager (on behalf of the Underwriters) at any time at or prior to 8:00 a.m. on the Listing Date:

(a) if there shall develop, occur, exist or come into effect:

  (i) any material adverse change or prospective material adverse change in the business or in the financial or trading position of the Group; or

  (ii) any change in or any event or series of events resulting in any change in or development of local, national or international financial, political, economic, military, industrial, legal, fiscal, regulatory, stock market, currency, equity, exchange control, regulatory or market or other conditions (including without limitation the imposition of any moratorium, suspension or restriction on commercial banking activities in Hong Kong or any other jurisdiction(s) which has material adverse effect on the Group or on trading in securities generally on the Stock Exchange or any stock exchange); or

(iii) any new law or regulation or any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the PRC, the U.S., the Cayman Islands or BVI or any other jurisdiction(s) which has material adverse effect on the Group; or

(iv) the imposition of any economic sanction or withdrawal of trading privileges in any manner by the U.S. or the European Union (or any of its members) or any other country or organisation on Hong Kong, the PRC, the Cayman Islands or BVI which has material adverse effect on the Group; or

(v) any change or development involving a prospective change in taxation or exchange controls (or the implementation of any exchange control) or foreign investment regulations in Hong Kong, the PRC, the Cayman Islands, BVI or any other jurisdiction(s) which has material adverse effect on the Group; or

(vi) any event or series of events of force majeure including, without limitation, any act of government, act of God, act of war, riot, public disorder, civil commotion, fire, flooding, explosion, epidemic (including but not limited to severe acute respiratory syndrome and other viruses of an epidemic nature), terrorism, strike or lock-out; or

(vii) any litigation or claim of any third party being threatened or instituted against the Company and/or any other member of the Group which has or could be expected to have a material adverse effect on the Company or the Group taken as a whole; or

(viii) any change in the system under which the value of the Hong Kong dollar is linked to that of the U.S. dollar; or

(ix) a petition presented for the winding-up or liquidation of the Company or any other member of the Group or the Company or any other member of the Group making any composition or arrangement with their creditors or entering into a scheme of arrangement or any resolution being passed for the winding-up of the Company or any other member of the Group or a provisional liquidator, receiver or manager being appointed over all or a majority of the assets or undertaking of the Company or any other member of the Group or anything analogous thereto occurring in respect of the Company or any other member of the Group;

and any such event which, in each case, in the sole and reasonable opinion of the Lead Manager (for itself and on behalf of the Underwriters):

(i) is or will be, or is likely to be, materially adverse to the business, financial or trading condition or prospects of the Group taken as a whole or in the case of a change or development involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in the Cayman Islands, the BVI, the PRC, Hong Kong or any other jurisdiction which has material adverse effect on the Group or any manner thereof, is or will or is likely to be materially adverse to any present or prospective shareholder of the Company in his capacity as such; or

(ii) has or will have or is likely to have a material adverse effect on the success of the Placing as a whole; or

(iii) for any other reason makes it impracticable, inadvisable or inexpedient for the Underwriters to proceed with the Placing as a whole; or

(b) if there comes to the notice of the Lead Manager that:

(i) any statement contained in this prospectus was, when this prospectus was issued, or has become untrue, incorrect or misleading in any material respect; or

(ii) any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom considered by the Lead Manager in its sole and reasonable opinion (on behalf of the Underwriters) to be material in the context of the Placing; or

(iii) any of the warranties under the Underwriting Agreement ("the Warranties") is untrue, inaccurate or misleading in any respect when given or repeated, or any breach of any of the Warranties considered by the Lead Manager in its sole and reasonable opinion (on behalf of the Underwriters) to be material in the context of the Placing; or

(iv) any adverse change in the business or in the financial or trading position of the Company which is in the sole and reasonable opinion of the Lead Manager (on behalf of the Underwriters) to be material in the context of the Placing; or

(v) any breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than by any of the Underwriters or the Lead Manager).

Commissions and expenses

The Underwriters will receive an underwriting commission of 3.75% of the aggregate Placing Price of all the Placing Shares (including any additional Shares which may be issued pursuant to the exercise of the Offer Size Adjustment Option), out of which they will pay any sub-underwriting commissions. The Sponsor will receive financial advisory and documentation fee and for acting as sponsor to the Placing. Such underwriting commission, together with the Stock Exchange listing fee, SFC transaction levy, Stock Exchange trading fee, brokerage, legal, other professional fees, printing and other expenses relating to the Placing, which are currently estimated to amount to an aggregate of approximately HK$10.5 million in aggregate (based on the Placing Price of HK$0.88 per Share, being the mid-point of the indicative Placing Price range of between HK$0.80 and HK$0.96 per Share and the assumption that the Offer Size Adjustment Option is not exercised) is to be borne by the Company.

Undertakings

The Initial Management Shareholders have given the Company, the Sponsor, the Underwriters and the Stock Exchange non disposal undertakings, details of which are described under the section headed "Substantial, Initial Management and Significant Shareholders" in this prospectus.

Each of the Initial Management Shareholders and the executive Directors and the Company has undertaken with the Sponsor and the Underwriters to procure that the Company will not, save pursuant to the Placing, the Capitalisation Issue, the issue of Shares pursuant to the exercise of the Offer Size Adjustment Option, the options granted under the Share Option Schemes or any capitalisation issue or any consolidation, sub-division or capital reduction of Shares or otherwise permitted under the GEM Listing Rules, within a period of six months from the date on which dealings in the Shares first commence on GEM allot or issue or accept subscriptions for, or grant or agree to grant any option or warrants or other rights in or to subscribe for shares or debentures (other than debentures granted as security collateral for borrowings in the ordinary course of business) or other securities (including securities convertible or exchangeable for shares) of the Company or any interests therein.

Underwriters' interest in the Company

Save as disclosed in this prospectus, none of the Underwriters or any of their respective holding companies, or any of their respective subsidiaries is interested beneficially or legally in any shares of the Company or has any right (whether legally enforceable or not) or option to subscribe for or to nominate persons to subscribe for any Shares.

Sponsor's interest in the Company

The Sponsor and their respective associates will receive from the Company:

(i) a documentation fee as sponsor of the Placing;

(ii) by a compliance adviser agreement to be entered into between DTCF and the Company pursuant to which DTCF will be retained as the compliance adviser of the Company for the period commencing from the Listing Date and ending on the date on which the Company issues its financial results for the year ending 31 December 2007 and the Company shall pay an agreed fee to DTCF for the provision of such services; and

(iii) certain associates of the Sponsor, whose ordinary businesses involving trading of and /or dealing in securities, may involve in the trading of and /or dealing in the securities of the Company.

The Sponsor confirms that save as disclosed in this prospectus:

(i) neither the Sponsor nor their respective associates have or may, as a result of the Placing or transaction, have an interest in any class of securities of the Company, or any other company within the Group (including options or rights to subscribe such securities);

(ii) no director or employee of the Sponsor who is involved in providing advice to the Company has or may, as a result of the Placing, have any interest in any class of securities of the Company or any other company in the Group (including options or rights to subscribe for such securities but, for the avoidance of doubt, excluding interests in securities that may be subscribed for by any such director or employee pursuant to the Placing);

(iii) neither the Sponsor nor their respective associates have accrued any material benefit as a result of the successful outcome of the Placing, including, for example, the repayment of material outstanding indebtedness or success fees save and except for the documentation fee to be received by the Sponsor and its respective associates;

(iv) no director or employee of the Sponsor has a directorship in the Company or any other company within the Group; and

(v) certain fellow subsidiaries, holding companies or affiliates of the Sponsor, whose ordinary businesses involve the trading of and dealing in securities, may derive commission from the trading and dealing in the securities of the Company.

THE PLACING

42,000,000 new Shares are being offered pursuant to the Placing, representing in aggregate 25% of the issued share capital of the Company as enlarged by the Placing and the Capitalisation Issue. The number of Placing Shares may also be increased by an aggregate of 6,300,000 additional new Shares upon exercise in full of the Offer Size Adjustment Option as described below.

The Placing is fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and the Company and the Lead Manager agreeing the Placing Price. Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company, will conditionally place the Placing Shares at the Placing Price payable by the investors acquiring the Placing Shares plus a 1% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee, each in respect of the Placing Price. The Placing Shares shall be placed with individual and/or selected professional and institutional investors in Hong Kong. Professional and institutional investors generally include brokers, dealers, companies, high net worth individuals and companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities.

BASIS OF ALLOCATION

Allocation of Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investors are likely to buy further Shares or hold or sell their Shares after the listing of the Shares on the GEM. Such allocation is intended to result in a distribution of the Placing Shares which would lead to the establishment of a solid professional and institutional shareholder base for the benefit of the Company and its shareholders as a whole.

MINIMUM PUBLIC FLOAT

Pursuant to Rule 11.23(1) of the GEM Listing Rules, the Company is required under the GEM Listing Rules to maintain at all times after its listing on GEM a public float of at least 25% of its issued share capital from time to time.

PRICE PAYABLE ON SUBSCRIPTION

The Placing Price will not be more than HK$0.96 per Share and is expected to be not less than HK$0.80 per Share. Based on the maximum Placing Price of HK$0.96, the price payable will be the Placing Price of HK$0.96 per Placing Share plus a 1% brokerage fee, 0.005% SFC transaction levy, 0.002% investor compensation levy and 0.005% Stock Exchange trading fee, each in respect of the Placing price, amounting to a total of HK$4,848.58 for each board lot of 5,000 Shares which is payable on subscription.

The Underwriters are soliciting from prospective investors indications of interest in acquiring the Placing Shares in the Placing. Prospective investors will be required to specify the number of Placing Shares they would be prepared to acquire either at different prices or at a particular price.

The Placing Price will be fixed by agreement between the Company and the Lead Manager (for itself and on behalf of the Underwriters) at or before the Price Determination Time. **If the Lead Manager (for itself and on behalf of the Underwriters) and the Company are unable to reach an agreement on the Placing Price at or before 5:00 p.m. on 5 October 2005, or such other time and/or date as may be agreed between the Company and the Lead Manager (for itself and on behalf of the Underwriters) but in any event not later than 5:00 p.m. on 7 October 2005, the Placing will not become unconditional and will lapse.**

The Lead Manager (on behalf of the Underwriters) may, with the consent of the Company, reduce the indicative Placing Price range below to that as stated in this prospectus at any time prior to the Price Determination Time. If this occurs, notice of reduction of the indicative Placing Price range will be published in the GEM website. The Company will make an announcement on the agreed Placing Price on the GEM website as soon as practicable if the Placing Price could be agreed.

OFFER SIZE ADJUSTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to the Underwriters the Offer Size Adjustment Option, which is exercisable by the Lead Manager (for itself and on behalf of the other Underwriters) at any time at or before 12:00 noon on 10 October 2005 (i.e. the business day immediately before the date of the announcement of the level of indication of interest in the Placing), to require the Company to allot and issue up to an aggregate of 6,300,000 additional new Shares at the Placing Price, representing 15% of the total number of Shares initially available under the Placing. Any such additional Shares may be issued to cover any excess demand in the Placing at the absolute discretion of the Lead Manager (for itself and on behalf of the other Underwriters).

For the avoidance of doubt, the purpose of the Offer Size Adjustment Option is to provide flexibility for the Lead Manager (for itself and on behalf of the other Underwriters) to meet any excess demand in the Placing. The Offer Size Adjustment Option will not be associated with any price stabilisation activities of the Shares in the secondary market after the listing of the Shares on the Stock Exchange and will not be subject to the Securities and Futures (Price Stabilising) Rules of the Securities and Futures Ordinance. No purchase of the Shares in the secondary market will be effected to cover any excess demand in the Placing which will only be satisfied by the exercise of the Offer Size Adjustment Option in full or in part.

The Company will disclose in its allotment results announcement whether and to what extent the Offer Size Adjustment Option has been exercised, and will confirm in the announcement that, if the Offer Size Adjustment Option is not exercised by then, the Offer Size Adjustment Option will lapse and cannot be exercised on any future date. In the event that the Offer Size Adjustment Option is exercised in full, the adjusted net tangible asset value per Share will be increased from approximately HK$0.36 to approximately HK$0.38, based on the Placing Price of HK$0.80 per Share (being the lowest point of the indicative Placing Price range) or will be increased from approximately HK$0.40 to approximately HK$0.42, based on the Placing Price of HK$0.96 per Share (being the highest point of the indicative Placing Price range). The effects will therefore not be material.

CONDITIONS OF THE PLACING

The Placing will be conditional upon, amongst other things:

(i) the GEM Listing Committee granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus;

(ii) the Placing Price having been duly determined at or before the Price Determination Time; and

(iii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including the waiver of any condition(s) by the Lead Manager and not being terminated in accordance with the terms of such agreement or otherwise),

in each case, on or before the dates and times specified in the Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times).

If such conditions have not been fulfilled or validly waived prior to the times and dates specified in the Underwriting Agreement, the Placing will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Placing will be published by the Company on the GEM website on the next day following such lapse.

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

7th Floor, Allied Kajima Building,
138 Gloucester Road,
Hong Kong

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
Directly held				
JF Household Furnishings (Asia) Ltd. ("JF Asia")	British Virgin Islands 21 October 2004	100%	Ordinary shares US$300	Investment holding
Indirectly held				
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

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

Combined balance sheets

	Section II Note	At 31 December **2003** *HK$*	**2004** *HK$*	At 30 June **2005** *HK$*
NON-CURRENT ASSETS				
Property, plant and equipment	11	7,450,815	9,587,996	11,357,974
Land use rights	12	1,088,708	1,062,767	1,048,809
		8,539,523	10,650,763	12,406,783
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	10,838,377	12,639,736	6,235,544
		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	15,855,319	22,922,358	15,566,038
		52,553,335	59,490,978	57,438,439
NET CURRENT ASSETS		2,416,324	14,653,091	24,825,495
NET ASSETS		10,955,847	25,303,854	37,232,278
CAPITAL AND RESERVES				
Paid-in capital	23	7,356,522	7,358,082	7,358,082
Reserves		3,599,325	17,945,772	29,874,196
		10,955,847	25,303,854	37,232,278

Combined cash flow statements

	Section II Note	Year ended 31 December 2003 *HK$*	Year ended 31 December 2004 *HK$*	For the six months ended 30 June 2004 *HK$ (unaudited)*	For the six months ended 30 June 2005 *HK$*
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

	Section II Note	Year ended 31 December 2003 HK$	Year ended 31 December 2004 HK$	For the six months ended 30 June 2004 HK$ (unaudited)	For the six months ended 30 June 2005 HK$
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
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)	—
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		5,167,194	10,838,377	10,838,377	12,639,736
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD		10,838,377	12,639,736	7,580,543	6,235,544
ANALYSIS OF CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD					
Bank and cash balances		10,838,377	12,639,736	7,580,543	6,235,544

Combined statements of changes in equity

	Paid-in capital *HK$*	Capital reserve *(Note 1)* *HK$*	General reserve *(Note 2)* *HK$*	Retained profits *HK$*	Total *HK$*
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	7,356,522	—	3,369,258	230,067	10,955,847
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	7,358,082	131,901	5,338,455	12,475,416	25,303,854
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	7,358,082	131,901	5,338,455	24,403,840	37,232,278
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)	7,356,522	—	3,369,258	9,041,050	19,766,830

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	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
Turnover				
- Sales of goods	84,087,159	152,459,445	68,597,208	94,792,451
Other revenue				
- Interest income	32,083	64,086	30,287	12,186
Total revenue	84,119,242	152,523,531	68,627,495	94,804,637

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

For the year ended 31 December 2004

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

For six months ended 30 June 2004 (unaudited)

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

For the six months ended 30 June 2005

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

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

For the year ended 31 December 2004

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

For the six months ended 30 June 2004 (unaudited)

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

For the six months ended 30 June 2005

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

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$*
			(unaudited)	
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$*
			(unaudited)	
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	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
PRC enterprise income tax	2,041,223	3,079,425	1,324,269	1,745,743

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	**2004**	**2005**
	HK$	*HK$*	*HK$*
Provision for PRC enterprise income tax	1,337,138	1,616,241	836,140

(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$*
			(unaudited)	
Profit before taxation	15,428,185	21,956,329	10,135,252	13,674,167
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	—	(194,549)	—	(220,812)
Taxation charge	2,041,223	3,079,425	1,324,269	1,745,743

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

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	**At 30 June 2004**
	HK$	*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	(399,150)	—
	4,084,918	2,466,196

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	**Six months ended 30 June 2004**
	HK$	*HK$*
Cash inflows from operating activities	3,691,694	665,884
Cash inflows from investing activities	2,526	584
	3,694,220	666,468

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	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$* (*unaudited*)	*HK$*
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	—	—	—	—
	207,925	2,070,377	10,189	1,118,092

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**
			(unaudited)	
Nil to HK$1,000,000	3	2	3	6
HK$1,000,001 to HK$1,500,000	—	1	—	—
	3	3	3	6

	Year ended 31 December		For the six months ended 30 June	
	2003	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
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
Emoluments of the independent non-executive directors are as follows:				
Director D	—	—	—	31,450
Director E	—	—	—	31,450
Director F	—	—	—	18,871

(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**
	HK$	*HK$*	*HK$*	*HK$*
			(unaudited)	
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
	469,771	746,798	43,366	423,037

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**	**2005**
			(unaudited)	
Nil to HK$1,000,000	4	2	4	2

(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	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
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	2,321,481	3,504,348	46,861	459,704	1,118,421	7,450,815
At 31 December 2004	6,438,377	2,298,700	172,008	678,911	—	9,587,996
At 30 June 2005	6,280,029	3,680,507	209,544	534,150	653,744	11,357,974

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

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

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**
	HK$	*HK$*	*HK$*
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	1,515,848	1,251,359	2,160,505
	19,070,212	28,062,057	36,862,620

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

14. TRADE RECEIVABLES

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

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

	At 31 December 2003 HK$	At 31 December 2004 HK$	At 30 June 2005 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 2003 HK$	At 31 December 2004 HK$	At 30 June 2005 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	1,618,933	2,383,987	93,652
	12,285,002	18,897,027	28,100,072

15. DEPOSITS AND OTHER RECEIVABLES

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

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	—	—
	1,351,838	1,560	—

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 30 June
	2003	**2004**	**2005**
	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**
	HK$	*HK$*	*HK$*
Trade payables	6,512,045	12,561,075	16,288,263
Trade payables to related companies	1,195,624	—	161,908
	7,707,669	12,561,075	16,450,171

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	2,620,879	2,012,893	2,837,542
	7,707,669	12,561,075	16,450,171

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	2,103,314	3,656,372	2,552,083
	8,488,797	11,599,156	10,557,295

(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**
	HK$	*HK$*	*HK$*
Mr. Yan Siu Wai	—	—	348,264
Mr. Leung Kwok Yin	—	—	232,176
Mr. Bao Jisheng	—	491,974	—
	—	491,974	580,440

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**
	HK$	*HK$*	*HK$*
Secured bank loans wholly repayable within one year	15,855,319	22,922,358	15,566,038

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

25. COMMITMENTS

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

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	**2004**	**2004**	**2005**
	HK$	*HK$*	*HK$* *(unaudited)*	*HK$*
Continuing:				
Purchases from				
- 餘姚港舜現代印務有限公司 (Yuyao Kongshun 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

For illustrative purposes only, the proforma financial information prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out here to provide the investors with further information on how the proposed listing of the Company might have affected the financial position of the Group after completion of the Placing. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the actual financial position of the Group after the completion of the Placing.

A. PROFORMA ADJUSTED NET TANGIBLE ASSETS

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

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

This statement has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial position of the Group following the Placing.

Notes:

1. The estimated net proceeds from the Placing are based on the Placing Price of HK$0.80 per Share and HK$0.96 per Share respectively after deducting the underwriting fee and other related expenses payable by the Company and taking no account of any Shares to be issued pursuant to the Offer Size Adjustment Option.

2. The proforma adjusted net tangible asset value per Share is arrived at based on 168,000,000 Shares in issue immediately after the Placing and taking no account of any Shares to be issued pursuant to the Offer Size Adjustment Option.

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

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

B. COMFORT LETTER ON PROFORMA ADJUSTED NET TANGIBLE ASSETS

RSM! Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

7th Floor, Allied Kajima Building,
138 Gloucester Road,
Hong Kong

5 October 2005

The Directors
JF Household Furnishings Limited

Dear Sirs,

We report on the proforma adjusted net tangible assets ("Proforma Adjusted NTA") set out in Section A of Appendix II to the prospectus dated 5 October 2005 (the "Prospectus") in connection of placing of 42,000,000 shares of HK$0.01 each in JF Household Furnishings Limited (the "Company"), which has been prepared to provide information about how the proposed listing might have affected the financial information presented.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Proforma Adjusted NTA in accordance with Rule 7.31 of the Rules Governing the Listing of Securities on Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

It is our responsibility to form an opinion on the Proforma Adjusted NTA and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Proforma Adjusted NTA beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted net tangible assets with the source documents, considering the evidence supporting the adjustments and discussing the Proforma Adjusted NTA with the directors of the Company.

Because the above work does not constitute an audit or review made in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the Proforma Adjusted NTA.

The Proforma Adjusted NTA has been prepared in accordance with the basis set out in Section A of Appendix II to the Prospectus for illustrative purposes only and, because of its nature, it may not give an indicative financial position of the Company and its subsidiaries (the "Group") as at 30 June 2005 or at any future date.

Opinion

In our opinion:

a) the Proforma Adjusted NTA has been properly compiled on the basis stated;

b) such basis is consistent with the accounting policies of the Group, and

c) the adjustments are appropriate for the purposes of the Proforma Adjusted NTA as disclosed pursuant to Rule 7.31(1) of the GEM Listing Rules.

Yours faithfully,
RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from Grant Sherman Appraisal Limited, an independent valuer, in connection with its valuations as at 31 July 2005 of the property interests of the Group in the PRC and Hong Kong.

GRANT SHERMAN APPRAISAL LIMITED

Room 904, 9/F, Harbour Centre
25 Harbour Road
Wanchai
Hong Kong

5 October 2005

The Directors
JF Household Furnishings Limited
15th Floor,
EIB Tower,
4-6 Morrison Hill Road,
Wanchai,
Hong Kong.

Dear Sirs/Madams,

In accordance with your instructions to value the property interests held by JF Household Furnishings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the PRC) and Hong Kong, we confirm that we have made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the value of the relevant properties as at 31 July 2005.

For property No. 1, due to the nature of the buildings and structures constructed for specific purpose, there is no readily identifiable market comparable. Thus these buildings and structures cannot be valued on the basis of direct comparison. They have therefore been valued on the basis of Depreciated Replacement Cost ("DRC").

DRC is based on an estimate of the Market Value for the existing use of the land, plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization.

Market Value is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion," assuming:

— a willing, neither over-eager nor forced, seller and buyer;

— that, prior to the date of valuation, there had been a reasonable period and manner for exposing the property to the market;

— that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

— that no account is taken of the value or other advantage, benefit, additional to market value.

For property No. 2, basis of Market Value has been adopted. For property No. 3 which is leased by the Group in Hong Kong, we are of the opinion that no commercial value attribute to the Group due mainly to the short term nature or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

In valuing the property interests, we have complied with all the requirements contained in Chapter 8 of the Rules Governing the Listing of Securities on the Growth Enterprise Market and The HKIS Valuation Standards on Properties (1st Edition 2005) published by The Hong Kong Institute of Surveyors.

The valuations have been made on the assumption that the owner sells the property interests on the market in their existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect their value.

In valuing the properties, we have assumed that the owner has free and uninterrupted rights to use the properties for the whole of the unexpired term as granted and is entitled to transfer the properties with the residual term without payment of any further premium to the government authorities or any third parties.

We have assumed that all consents, approvals and licenses from relevant government authorities for the properties have been granted without any onerous conditions or undue time delay which might affect their values. It is assumed that all applicable zoning and use regulations and restrictions have been complied with unless nonconformity has been stated, defined, and considered in the appraisal report.

No environmental impact study has been ordered or made. Full compliance with applicable national, provincial and local environmental regulations and laws is assumed unless otherwise stated, defined, and considered in the report. It is also assumed that all required licenses, consents, or other legislative or administrative authority from any local, provincial, or national government or private entity or organization either have been or can be obtained or renewed for any use which the report covers.

We have been provided with copies of extracts of title documents relating to the properties. However, we have not inspected the original documents to verify ownership or to verify any amendments which may not appear on the copies handed to us. Due to the nature of the land registration system in the PRC, we are unable to search the original documents to verify the existing title of the properties or any material encumbrances that might be attached to the properties. In the preparation of our valuation report regarding the properties in the PRC, we have relied to a considerable extent on the legal opinion provided by the Company's legal adviser, Hills & Co., on the PRC laws regarding the titles of the properties in the PRC.

In the course of our valuation, we have relied on a considerable extent on the information provided by the Company on such matters as property title, statutory notices, easements, tenure, occupation, site and floor areas, identification of the properties and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us. We were also advised by the Company that no material facts have been omitted from the information supplied. All documents have been used as reference only. All dimensions, measurements and areas are approximations.

No allowance has been made in our valuation for any charge, mortgage or amount owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. It is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

We have inspected the exterior of the properties and, where possible, the interior of the properties in respect of which we have been provided with such information as we have required for the purpose of our valuation. However, no structural survey has been carried out and it was not possible to inspect the wood work and other parts of the structure which were covered, unexposed or inaccessible. We are therefore, unable to report that the properties are free of rot, infestation or any structural defect. No tests have been carried out on any of the building services.

The valuations contained in this report specifically exclude the impact of environmental contamination resulting from any causes. No soil analysis or geological study was ordered or made in conjunction with this report, nor were any water, oil, gas, or other subsurface mineral use rights or conditions investigated.

Unless otherwise specified, all amounts are denominated in Hong Kong Dollars. The exchange rate used in valuing the property interests in the PRC at 31 July 2005 was HK$1 = RMB1.06.

We enclose herewith the summary of valuations and valuation certificates.

Respectfully submitted,
For and on behalf of
GRANT SHERMAN APPRAISAL LIMITED
Peggy Y. Y. Lai
MRICS MHKIS RPS
Associate Director
Real Estate Group

Note: Ms. Peggy Y.Y. Lai is a member of the Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and Register Professional Surveyors in the General Practice Section, who has over 5 years experience in the valuation of properties in Hong Kong, the PRC and the Asian Region.

SUMMARY OF VALUATION

Group I — Property interests owned by the Group in the PRC

	Property	Capital value in existing state as at 31 July 2005
1	A parcel of land, buildings and structure located at Yuyao Industrial Development Zone B, Yuyao, Zhejiang Province, The People's Republic of China	HK$11,820,000

Group II — Property interests to be held by the Group in the PRC

2	A parcel of land located at Yaobei Industrial New Zone, Yuyao, Zhejiang Province, The People's Republic of China	HK$14,810,000

Group III — Property interests licenced by the Group in Hong Kong

3	A Portion of 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong	No Commercial Value

VALUATION CERTIFICATE

Group I — Property interests owned by the Group in the PRC

	Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 *(HK$)*
1	A parcel of land, buildings and structure located at Yuyao Industrial Development Zone B, Yuyao, Zhejiang Province, The People's Republic of China.	The property comprises a parcel of land having a site area of approximately 17,549 sq.m together with 5 buildings erected upon the land. The total gross floor area of the buildings is approximately 10,192.39 sq.m. and mainly completed between 1999 and 2004. Their respective area and usage are stated below:	The property is currently occupied by the Group for production, storage and ancillary office purposes.	11,820,000

Buildings	Usage	Area *(sq.m.)*
1-storey workshop	Storage and production	1,618.44
1-storey workshop	Storage and production	768.96
2-storeys building	Office and staff canteen	593.52
1-storey workshop	Storage and production	564.01
2-storey workshop	Storage and production	6,647.46
	Total	10,192.39

A 3 storey workshop with an area of 4,970 sq.m. will be developed. The construction work has been commenced in May 2005, and is expected to be completed by November 2005. Old building demolishing work was underway as at the valuation date.

Notes:

i) According to the State-owned Land Use Rights Certificate Yu Guo Yung (2004) Di 07667 Hao, the land use rights with an area of approximately 17,549 sq.m. have been granted to JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd. (寧波捷豐家居用品有限公司) ("JF Ningbo") for a term up to 25 April 2043 for industrial use. This Certificate has replaced the State-owned Land Use Rights Certificate Yu Yao Zhen Guo Yung (1998) Zi Di 188 Hao, which was granted to JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd. (捷豐冷凍器材(寧波)有限公司) (the former name of JF Ningbo) for a term of 50 years commencing from 26 April 1993 to 25 April 2043.

ii) According to four Building Ownership Certificates, buildings with a total gross floor area of 10,192.39 sq.m. are vested to JF Ningbo for industrial purpose. Their respective certificate no. and area are shown below:

Certificate No.		**Area** *(sq.m.)*
1)	Yu Fang Chuan Zhen Cheng Qu Zi Di A0500215 Hao	1,618.44
2)	Yu Fang Chuan Zhen Cheng Qu Zi Di A0500216 Hao	564.01
3)	Yu Fang Chuan Zhen Cheng Qu Zi Di A0500217 Hao	1,362.48
4)	Yu Fang Chuan Zhen Cheng Qu Zi Di A0410427 Hao	6,647.46

iii) The land use rights described in note (i) and the buildings ownership described in note (ii)(1) and (ii)(4) are subject to a mortgage created in favour of Bank of China Yuyao Branch (中國銀行餘姚支行) for the period commenced from 24 January, 2005 and expiring on 23 January, 2007 ("Mortgage Period").

iv) Pursuant to a Construction Commencement Permit issued by Planning Bureau of Yuyao City on 17 March, 2005, JF Ningbo is permitted to commence the construction work of a 3 storey workshop with a construction scale of approximately 4,970 sq.m.

v) Since the workshop that is under construction has not been applied for Building Ownership Certificate, our valuation has not taken into account its value. However, as advised by the Company, the total development costs expended as at the date of valuation was approximately RMB120,740 and the expected outstanding development cost to complete the development was approximately RMB2,879,260.

vi) We have been provided with a PRC legal opinion on the title to the property issued by Hills & Co (廣東君道律師事務所), the PRC legal adviser, which contains, inter alias, the following information:

1) JF Ningbo has obtained the land use rights and building ownership under the aforesaid State-owned Land Use Rights Certificate and Building Ownership Certificates mentioned in note (i) above and note (ii) above.

2) Subject to the restrictions on the transfer, let and re-mortgage of the land use rights mentioned in note (i) above and the building ownership mentioned in note (ii)(1) above and note (ii)(4) above during the Mortgage Period, JF Ningbo is entitled to freely transfer, let or mortgage the land use rights and building ownership of the property.

Group II — Property interests to be held by the Group in the PRC

	Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 *(HK$)*
2	A parcel of land located at Yaobei Industrial New Zone, Yuyao, Zhejiang Province, The People's Republic of China.	The property comprises a parcel of land having a site area of approximately 44,105 sq.m..	The property is vacant	14,810,000

Notes:

i) According to the Land Use Rights Transfer Agreement ("Transfer Agreement") signed on 19 August 2005, the land use rights with an area of approximately 44,105 sq.m. have been granted to JF A.C.R. Equipment Supplies (Ningbo) Co., Ltd. (寧波捷豐家居用品有限公司) ("JF Ningbo") for a term of 50 years from the date of issuing Land Use Rights Certificate for construction of buildings and structures for industrial, office and ancillary facilities use at the land premium of RMB15,745,485 of which RMB3,500,000 ("First Instalment") should be paid within 10 days from the Transfer Agreement and the remaining premium ("Remaining Premium") payable within six months from the date of the Transfer Agreement.

ii) We have been provided with a PRC legal opinion on the interests of the Group in the property issued by Hills & Co, the PRC legal adviser, which contains, inter alias, the following information:

1 the First Instalment had been duly paid by JF Ningbo;

2 the Transfer Agreement is legal and valid and binding on the parties thereto and is enforceable;

3 JF Ningbo is entitled to the contractual interests under the Transfer Agreement and may transfer, let or mortgage the land use rights of the property after the grant of the land use rights certificate during the term of the land use rights according to related laws and regulations.

4 Upon the payment of the Remaining Premium, JF Ningbo may obtain land use rights certificate according to the Transfer Agreement and related laws and regulations without legal impediment.

Group II — Property interests licenced by the Group in Hong Kong

	Property	Description and Tenure	Particulars of occupancy	Capital value in existing state as at 31 July 2005 *(HK$)*
3	A Portion of 15th Floor, EIB Tower, 4-6 Morrison Hill Road, Wanchai, Hong Kong	The property comprises a portion on the 15th Floor of an office building completed in 1991 located in Wanchai of Hong Kong. The total lettable area is approximately 34.8 sq.m.	The property is licenced to the Company as office.	No Commercial Value

Notes:

i) The registered owner of the property is A.C.R. Equipment Supplies Limited ("ACR"), a Connected Person of the Group which issued share capital is held as to 30% by Mr. Yan Siu Wai, as to 30% by Madam Mak Man Lee, Manly (spouse of Mr. Yan Siu Wai) and as to 40% by Mr. Leung Kwok Yin, vide Memorial No. 4171200 dated 6 December 1991.

ii) According to a licence memorandum ("Licence Memorandum") dated 10 March 2005, ACR grants a licence ("Licence") to the Company for a term of two years commenced from 10 March 2005 and expiring on 9 March 2007 at a monthly licence fee of HK$4,500 which was the prevailing market rental assessed. The payment of outgoings such as management fees, electricity, air-conditioning fees and other utility charges and sundry expenses are apportioned by reference to the actual space occupied by the Group.

iii) The property is subject to a mortgage to secure banking facilities in favour of DBS Bank (Hong Kong) Limited ("DBS Bank") vide Memorial No. 05070400100069 dated 15 June 2005. Consent for the granting of the Licence under the Licence Memorandum has been granted by DBS Bank.

Set out below is a summary of certain provisions of the memorandum of association of the Company ("Memorandum") and the Articles and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 19 January 2005 under the Companies Law. The Memorandum and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 8 September 2005. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interests in contracts with the Company or any of its subsidiaries.*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is to his knowledge materially interested but this prohibition shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving of any security or indemnity to the Director or his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company or any of its subsidiaries by virtue only of his/their interest in shares or debentures or other securities of the Company;

(ee) any contract or arrangement concerning any other company in which the Director or his associate is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in 5% or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of his associates is derived); or

(ff) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s) as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.

(vi) *Remuneration*

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) *Proceedings of the Board*

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) *Register of Directors and Officers*

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(b) **Alterations to constitutional documents**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) **Alteration of capital**

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; and

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) **Variation of rights of existing shares or classes of shares**

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(e) **Special resolution-majority required**

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of The Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95)% in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20)% in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) **Power for the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) **Power for any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(m) **Dividends and other methods of distribution**

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20)% per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20)% per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(r) **Rights of the minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed pari passu amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) **Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m), above for further details).

(f) **Protection of minorities**

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

(g) **Management**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

A company shall cause proper books of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 8 March 2005.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the court or by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies may direct.

(o) **Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75)% in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Courts. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) **Compulsory acquisition**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90)% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court of the Cayman Island within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

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 genera1 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

			Number of Shares				Approximate
Name of Company	Name of Director	Capacity	Personal interests	Family interests	Corporate interests	Total	percentage of 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 Personal interests	Family interests	Corporate interests	Total	Approximate percentage of interests
Hero Talent	Mr. Leung Kwok Yin *(Note 3)*	Beneficial owner	100	—	—	100	100%
Joyday	Mr. Leung Kwok Yin *(Note 3)*	Beneficial owner	100	—	—	100	100%
Company	Mr. Leung Kwok Yin *(Note 4)*	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 *(Note)*
Mr. Leung Kwok Yin	HK$18,000 *(Note)*
Mr. Bao Jisheng	HK$58,000 *(Note)*

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	Moratorium Period
					(HK$)	
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:			10,752,000			

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:			6,168,000			
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:			3,240,000			
Total:			20,160,000			

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.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus, the statement of adjustments referred to in (b) below and copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Tracy Ong & Co. of 3908A, 39th Floor, Jardine House, 1 Connaught Place, Central, Hong Kong, during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the memorandum and articles of association of the Company;

(b) the accountants' report on the Group prepared by RSM Nelson Wheeler, the text of which is set out in Appendix I to this prospectus and the related statement of adjustments;

(c) audited financial statements for JF Ningbo for each of the two years ended 31 December 2004;

(d) the letter from RSM Nelson Wheeler relating to the pro forma financial information of the Group, the texts of which are set out in Appendix II to this prospectus;

(e) the letter, summary of value and valuation certificate relating to the property interests of the Group prepared by Grant Sherman Appraisal Limited, the text of which is set out in Appendix III to this prospectus;

(f) the rules of the Share Option Schemes;

(g) the Companies Law;

(h) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus;

(i) the service agreements referred to in the paragraph headed "Particulars of Directors' service contracts" in Appendix V to this prospectus;

(j) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus;

(k) the letter prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus; and

(l) the legal opinion prepared by Hills & Co., summarising the legal interests of the Group under relevant PRC laws and regulations.